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GENERAL

Japan's Foreign Policy Aims, Beijing Relations

94CM0281A Beijing XIANDAI GUOJI GUANXI
[CONTEMPORARY INTERNATIONAL RELATIONS]
in Chinese No 52, 20 Feb 94 pp 6-10

[Article by Shi Ding (0670 0002): "Outlook of Situation in Japan for 1994"]

[Excerpt] [passage omitted]

III. New Adjustments Brewing in Japan's Foreign Affairs

With the world quickening its pace toward multipolarity, disputes in Japan over its strategy for national development will become fiercer than ever before. Right now, Japan's basic line for its foreign affairs is to continue its readjustments and seek changes while holding its ground so as to keep pace with the changes of its external environment which have taken place after the Seattle meeting. Due to the fact that readjustments in its diplomacy are often affected by its domestic affairs, it is possible Japan may delay or hesitate in taking action.

1. Create an internal and external environment, pave the way to becoming a powerful nation in political affairs.

Since Hosokawa took his office, Japan adopted the tactics of making concessions to gain advantages on the issue of becoming a permanent member of the UN Security Council. Japan attached importance to "being recommended by other nations" rather than fighting for this membership and taking the initiative by itself. As for the international environment, Japan believes that the conditions for Japan to become a permanent member of the UN Security Council have become ripe in each passing day. Its next move will be to win popular support at home, while trying to skirt around the barrier of "amending its Constitution." In foreign affairs, it will launch another round of offense with emphasis on becoming the fifth permanent member of the UN Security Council and try to win more votes from developing nations.

2. Exert greater efforts in promoting "Asian Diplomacy," and expand Japan's economic interests and political influence in Asia. In view of its increasing economic dependence on Asia, Japan will further try to raise its diplomatic status in Asia in coordination with its domestic economic structural readjustment; turn the Asia-Pacific region into its economic backyard and diplomatic prop; and strive to gradually play a leading role in managing Asia-Pacific affairs.

In dealing with Southeast Asia, Japan will "make use of economic means to expand its political influence," pave its way with the outputs of its capital and merchandise, and develop multilateral economic cooperation, while

strengthening bilateral relations. It will seize the forthcoming opportunity in the normalization of U.S.-Vietnamese relations to strengthen its infiltration into the Vietnamese market, advocate unified actions to help Cambodia develop post-war reconstruction projects, and expand its influence in Indochina. In dealing with Northeast Asia, it will advocate peaceful dialogue; help the United States and North Korea solve the nuclear issue with peaceful means; try to officialize the dialogue on security issues among Japan, the United States and Russia; and set up a "regional system for the control of exports of technologies which can be used for both military and civilian purposes."

3. Readjust its relations with the United States, and gradually extricate itself from the situation wherein it excessively relies on the United States for its economy and it is politically contained by the United States. Within this year, Japan and the United States will have their final showdown in their "overall economic negotiations." In view of the fact that agreements were already reached at the Uruguay Round of Talks, the emphasis of U.S. strategy on its economic and security matters will be shifted from the Atlantic Ocean to the Pacific Ocean. It is making preparations to start a "Pacific Round of Talks for Trading" aimed at opening up the markets in Asia. Japan's market will be the first to be affected. The return of the United States to Asia will inevitably intensify the U.S.-Japanese contention for the leading role in economic cooperation in the region. In addition to showing Japan's unique status as a link between the United States and the ASEAN nations within the Asia-Pacific Economic Cooperation (APEC), it will try to play an even more active role in the East Asian Economic Council (EAEC) proposed by Malaysia so as to balance U.S. efforts in making use of the APEC Seattle meeting to increase its influence in Asia.

4. Improve political relations between Japan and Europe, and increase the radius in diplomacy. Hosokawa will visit Europe in May. He plans to make use of his trip as a turning point to strengthen the weaker link of the triangular relations among Japan, the United States and Europe, and achieve a balanced development. He will try to rely on the Japanese-European mutual support to have more say in foreign affairs when he deals with the United States. Japan will try to add new contents in the "Japan-EC Joint Statement" and raise the bilateral political and diplomatic relations between Japan and the European nations in the past to the level of Japanese-European cooperation. It will try to become a "quasi NATO member nation," and make use of the European Union and the European Security Council to "push the Japanese-European political cooperation into a new stage" and turn this type of cooperation into another strategic pillar in Japan's diplomatic structure.

5. Strengthen political dialogue between Japan and Russia, and create a "soft environment" for the normalization of Japanese-Russian relations. In view of the fact that the improvement of Japanese-Russian relations will

help Japan reverse its unfavorable position in the quadrilateral relations among Japan, the United States, China and Russia, and improve the strategic environment in Northeast Asia, Japan's Foreign Minister Hata and Prime Minister Hosokawa plan to visit Russia on different occasions in March and May. Japan will reaffirm its stand to continuously support Russia's line of reform within the framework set up by the group of seven Western nations; implement its plan to aid Russia which it had announced before; promote bilateral political dialogue; and encourage the exchange of visits by leaders of both countries. Meanwhile, Japan will continue to carry out negotiations on the issue of Japan's Northern Islands and try to pave the way to finally solve the problem in the "post-Yeltsin" period.

IV. Japan-China Relations To Enter a New Historic Stage

At a time when Japan is changing its political and economic system and readjusting its foreign and domestic policies, it will duly adjust its strategy toward China. Japan will seek to establish a "new-type post-war relation" with China and to ensure that the development of the Japan-China relation will not be controlled by the United States. It will seek to establish a Japan-China relations "in the world" and "in the Asia-Pacific region" and maintain an "ordinary relation between one state and other" which is not "restrained by history."

1. Proceeding from Japan's strategic interests, Japan will not change its main foreign policy in maintaining the Japan-China relations of friendship and cooperation. Recently Hosokawa once again emphatically pointed out that Japan regarded the establishment of a "better Japan-China relations toward the 21st Century" as the basic principle for its China policy. He placed the Japan-China relationship on a par with the Japan-U.S. relationship, and stressed that both of them are important pillars of Japan's diplomacy.

In the development of its relations with China, Japan takes into consideration the following new factors:

A) It takes Japan-China relations as the key for Japan to attain the status of a "major nation in political affairs." After the disintegration of the Soviet Union, the Japan-China relationship is strategically becoming more and more important in Japan's foreign policy. Japan needs China's cooperation to hold sway in the new order in the world and in the Asia-Pacific region. China holds a key vote if Japan is to become a permanent member of the UN Security Council. The Japan-China relationship is a trump card if Japan wants to raise its strategic diplomatic status in dealing with the United States and to seek independence in handling foreign affairs.

B) Japan regards the Japan-China relationship as an "anchor" in stabilizing the situation in Asia. This relationship is a necessary condition for the promotion of economic development in the Asia-Pacific region. Japan

believes that peace, stability and security in the Asian-Pacific region are still being threatened by various factors even after the cold war ended. Without a stable Japan-China relationship, there will be no peace in this region. Whether the rapid economic development in this region can be maintained or not depends on the economic development and cooperation between Japan and China. Japan will encounter endless difficulties in promoting its "new Asian diplomacy" without China's support.

C) Japan seeks to develop the Japan-China relation so as to check China's excessive growth which may harm Japan's interests. In face of the increasing changes in China and the improved relations between China and the United States after the Seattle meeting, Japan is worried about the possibility of China and the United States joining their efforts to contain Japan. It is for this reason that strategically Japan needs to develop its relations with China while containing each other.

2. Based on the developing situation, Japan is adjusting its strategy in dealing with China.

First, Japan's strategic ideology has changed from one of "allying with China to resist the Soviet Union" in the past to one of relying on China's support to stabilize Northeast Asia and the Western Pacific Region, and help Japan have more say on international affairs and become a major nation in political affairs. It is for this purpose that it must attach greater importance to the Japan-China relationship in its foreign policy, and improve the situation whereas the development of the Japan-China relationship is constrained by the United States.

Second, the core of Japan's foreign policy has changed from economic cooperation to paying equal attention to politic, economic and security matters and from bilateral relations to cooperative relations of a regional or even world nature.

Third, its China policy is to change from a "special relationship" to an "ordinary relationship." That means to shake off the yoke of historical issues and establish the Japan-China relationship on the basis of reciprocity. Meanwhile, in its China policy, Japan will stress the need to maintain a balance in the triangular relationship among Japan, the United States and China, and ensure that the situation is always to Japan's advantage. In short, the Japan-China relationship will witness new developments in the new year. The two nations will rely on each other even more, and they would cooperate with each other in more fields. Politically there will be more contacts at the high level between the two countries, and a new situation will emerge in economic cooperation. There will be more dialogue on security matters in the Asia-Pacific Region and bilateral security issues. However, with the continuous growth of China's overall national strength, there will emerge competitions between the two countries. While Japan enlists the support of the United States and joins the

ASEAN nations to strategically contain China and "psychologically hold back China," some of its movements merits our attention.

A) It stressed the need to achieve an "overall balance" between economic cooperation and political security, and played economic cards on the issue of politics and security. It shortened the credit period of its loans to China so as to maintain its influence over China. It imposed many restrictions on the use of loans from Japan, the credit period and other terms. It linked financial and economic cooperation between the two nations with China's national defense modernization program, the so-called military sales and the bilateral dialogue on security matters.

B) Some of the members of Japan's ruling group who advocate the establishment of a "quasi-government relation" between Japan and Taiwan are gaining ground. Their aim is to safeguard Japan's commercial interests in Taiwan and make Japanese products economically more competitive. At the same time, they try to make use of this to strengthen Japan's containment over China. It is reported that Japan is negotiating with Taiwan on how Minister of International Trade and Industry Hiroshi Kumatani may visit Taiwan, and that it plans to invite Li Denghui to visit Japan during the APEC summit meeting in Tokyo in 1995. Nevertheless that does not conform with Japan's "one China" policy.

NATIONAL AFFAIRS, POLICY

ETC Analyzes Enterprise Loss Reversals

94CE0426B Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 2, 1 Feb 94 pp 25-26

[Article by the State Economic and Trade Commission: "Ensure Success in Stopping Losses and Increasing Profits"]

[Text] Since 1993, all localities and departments have continually strengthened their leadership over the task of stopping losses and increasing profits for enterprises and done a great deal of hard and meticulous work in this respect. Thanks to their efforts, the task across the country has produced some results.

I. Major Steps Taken To Stop Losses, Increase Profits

In 1993, all localities and departments continued to implement the State Council's "Circular on Launching an In-Depth Campaign To Stop Losses and Increase Profits for Enterprises" in accordance with the arrangements made by the State Economic and Trade Commission and the Ministry of Finance [ETC]. They have accumulated some quite successful experiences and methods in the following six main areas:

First, they implemented a system for key leaders to undertake responsibility as well as a responsibility system to meet preset targets for stopping losses. The former system, which held key leaders at all levels personally responsible for stopping losses and increasing profits, was an organizational arrangement to guarantee that this task received unremitting attention at all times. Under this system, leaders undertook the responsibility for improving the operations of big loss-suffering enterprises. They reached deep into the reality and conscientiously helped the enterprises solve the difficulties and problems encountered in production and operations. Meanwhile, based on the loss-stopping work assigned by the state, all localities and departments instituted a system where work targets were set up for fulfillment at prefectural and county levels and by the trades and enterprises concerned. As a result, all levels were required to meet certain targets. Their work was reviewed periodically, and an evaluation report was published every month. Successful units in meeting the targets were given awards, while those failing to do so were penalized. And each level was accountable to the next higher level.

Second, efforts were made to increase the internal reforms and strengthen the management of enterprises. While implementing the "Regulations on Transformation of Operational Mechanism of Industrial Enterprises Owned by the Whole People," all localities and departments tried to learn from and popularize the Handan Steel Plant's experience, namely, to put the stress on tapping potentials within the enterprises as a way to stop losses and increase profits. More efforts were devoted to cost control and quota management. Separate

accounting systems were carried out for different levels. Each unit within the enterprise was held responsible for the effect of its work on the enterprise's profits and losses. Attention was paid to reducing material consumption and minimizing loss and waste. In addition, the three systems within enterprises were reformed, while a risk-protection mechanism and an incentive mechanism were set up to improve the efficiency of management. As to those enterprises that had long been in the red and whose assets could not cover the liabilities, action was taken as the case required—this included closing down the enterprises, suspending their operations, merging them with others, switching them to other lines of production, and adjusting their production, product mix, or organizational structure.

Third, particular attention was given to improving big loss-suffering enterprises and dealing with their problems on a case by case basis. Based on investigations and studies, all localities and departments classified the loss-suffering enterprises into different groups according to the nature of their problems and decided on the priority in dealing with them. They worked out a list of big loss-suffering enterprises and made diagnostic plans after consulting with the parties concerned. Different measures were taken for different factories. Specific support was given to certain enterprises with a view to helping them stop losses and increase profits. In addition, the state and local economic and trade commissions (or economic commissions or planning and economic commissions in some localities; the same below) paid particular attention to the work of stopping losses and increasing profits for 300 selected enterprises in various parts of the country. They conducted follow-up checks on these enterprises and monitored their operations on a periodical basis.

Fourth, a loss-stopping fund was set up to help loss-suffering enterprises to stop their losses. In many localities, the financial department or the bank set aside a certain amount of money to establish such a fund. Its purpose was to assist hopeful enterprises in developing new products and conducting low-cost technological upgrading. Sometimes, the fund was used to fill up a temporary shortage of working capital or to pay interest on loans. This provided a favorable condition for loss-suffering enterprises to stop their losses.

Fifth, efforts were made to increase production and boost revenue by relying on advance in science and technology. Some localities and departments, on the one hand, pooled financial resources to help loss-suffering enterprises to upgrade their equipment and manufacturing processes with a view to fully tapping their own potentials. On the other hand, they encouraged loss-suffering enterprises to benefit from advanced science and technology, adopt new manufacturing processes, use new technology and equipment, and speed up the development of new products and the adjustment of their product mix. This way the enterprises could turn out quality and marketable products to compete with others so as to achieve the objective of stopping losses.

Sixth, all-out efforts were made to develop the tertiary industry and diversified operations.

Apart from the above, the state adopted a series of new policies and measures to help eliminate losses suffered by some trades because of certain policies implemented in the past. This assisted greatly in promoting the 1993 work of stopping losses and increasing profits for enterprises.

II. Plan for Stopping Losses and Increasing Profits in 1994

The 1994 target for stopping losses and increasing profits for enterprises is to bring down the percentage of loss-suffering enterprises among the industrial enterprises contained in the state budget by 5 percentage points and to cut their total amount of losses by 10 percent compared with the 1993 records.

To ensure the success of the 1994 work, all localities and departments are requested to do the following:

A) It is imperative to stress the responsibility for stopping enterprises' losses and continue to give them proper guidance according to the nature of their problems. All localities and departments should strengthen their leadership in organizing the work of stopping losses and increasing profits. They should continue the target responsibility system and set specific targets for the above-mentioned work to be met by various units and enterprises. They should see to it that clear-cut targets are assigned, and the individuals concerned are held responsible for the fulfillment of these targets. The management of all enterprises should make a list of their big loss-suffering units, investigate and study the problems in each case, and work out solutions. Different solutions should be used for different factories, and deadlines should be set for them to correct their problems. All loss-suffering enterprises are required to form a loss responsibility mechanism and link the interests of their staff members and workers to the results they achieved in reducing and stopping losses as a way of reward or punishment. In addition, the economic and trade commissions, financial and audit departments, and the enterprise management should conduct periodical supervision and inspection of the work of stopping losses and increasing profits. Regarding those loss-suffering enterprises whose performance is being followed up by the State Economic and Trade Commission, key leaders of local economic and trade commissions should be personally responsible for helping them solve practical problems and prompting them to stop or reduce losses as soon as possible.

B) More efforts should be devoted to operational management and to the tapping of potentials within enterprises. All localities and departments should make further efforts to learn from and popularize the Handan Steel Plant's experience and continue to gear up and improve the operational management of enterprises. It is important at present to beef up basic management, cost control, and the improvement of work shifts and groups.

All localities and departments should institute a sound quota management procedure as well as other regulations, rules, and standards, and implement a strict performance evaluation system, using the management standards of domestic and foreign advanced enterprises as a reference. In addition, they should seriously implement the "General Financial Guidelines for Enterprises" and the "Guiding Principles for Enterprise Accounting," improve the economic accounting within enterprises, strictly enforce the budget system and financial work discipline, and lower all costs and expenses.

C) Enterprises should be dealt with on their merits. Those hopeful of improvement should be given support. In the first place, where conditions permit, local authorities and departments in charge of the specific trades should continue to put money into and make proper use of the loss-stopping fund. The fund should be used mainly for construction of small technological upgrading projects that can be applied to production within this year, are suited to small- and medium-sized enterprises, and can yield quick economic results. It should also be used to support loss-suffering enterprises in developing new products and to meet their needs for short-term working funds. Second, in budgeting and using various technological-transformation funds, the economic and trade commissions, as well as financial and banking departments, should set aside a certain amount for supporting loss-suffering enterprises in stopping their losses. Third, based on the inventory of the assets held by loss-suffering enterprises, plans should be worked out to solve the lingering problems left from the past. Fourth, after adopting the measure of granting loans to enterprises based on their asset-to-liability ratio, banks should make some interim arrangements to support those hopeful enterprises in improving their production and operations and to assist certain loss-suffering enterprises in accelerating their product-mix adjustment. Presently, the State Economic and Trade Commission is consulting with the departments concerned in formulating concrete measures for loss-suffering enterprises to obtain working-fund loans during the transitional period.

D) Transformation of the enterprise operational mechanism should be put in high gear. Continued efforts should be made to implement the "Regulations on Transformation of Operational Mechanism of Industrial Enterprises Owned by the Whole People" and "Regulations on Supervision and Management of Industrial Enterprises Owned by the Whole People" to breakthrough adjusting the enterprise structure. Enterprises that conform to the state's industrial policy, are hopeful of improvement, and have a good market for their products, can be leased or sold to others, or merged with others. For those that have suffered losses for a long time with no hope of improvement, having more liabilities than assets, resolute action should be taken to allow them to apply for bankruptcy. In this way, we will be able to adjust our enterprise structure and fundamentally correct the mechanisms that cause losses to enterprises.

E) All-out efforts should be made to promote technological progress and further improve product quality. All localities and departments should energetically assist loss-suffering enterprises in importing advanced technology, improving manufacturing processes, using new materials and substitutes, achieving more effective utilization of energy and raw materials, and minimizing the material consumed for making each unit of product. Meanwhile, they should make positive efforts to organize and mobilize all staff members and workers to join the quality control campaign and see to it that quality control is conducted at every step of the production process. For this purpose, strict metrological controls, acceptance tests, and quality-monitoring procedures should be put into effect at every link of production and operations. Loss-suffering enterprises should be encouraged to develop competitive and quality products so as to achieve the goal of stopping losses and increasing profits.

F) A wide-scale and in-depth campaign for "double increase and double economy" [campaign to increase production and practice economy and to increase revenues and retrench expenditures] should be launched. All enterprises are requested to carry forward the spirit of hard struggle, diligence, and frugality. Party and government departments, trade unions, Communist Youth League organizations, and women's federations should all make concerted efforts with one mind, rely fully on the masses, and arouse their initiative and creativity to develop extensive and in-depth activities to "increase production and practice economy and to increase revenues and retrench expenditures," so as to achieve substantial results in stopping losses and increasing profits for enterprises.

This year, the deepening of enterprise reform and the implementation of various reform measures will bring a drastic change to the external environment and the operational mechanism of enterprises. This will have a positive effect on improving the operations of our state-owned enterprises. On the other hand, however, enterprises will be confronted with new questions. In particular, those enterprises with more problems left from the past and greater difficulties in their operations will find it hard to completely adapt themselves to the new economic system and the new changes in the market. Thus, all localities and departments should proceed with enterprise reform in a deep-going and down-to-earth way as required by the "Resolution" of the Third Plenary Session of the 14th CPC Central Committee. They should guide enterprises to gear their operations to the market, beef up their management, make internal improvement, and quicken their pace of structural adjustment. In addition, they should lead enterprises to raise economic efficiency, improve quality in every respect, and strive hard to intensify the campaign for stopping losses and increasing profits.

Current Status of Enterprise Losses, Solutions

94CE0426A Kunming JINGJI WENTI TANSUO
[INQUIRY INTO ECONOMIC PROBLEMS]
in Chinese No 2, Feb 94 pp 14-15

[Article by Wang Haiyan (3769 3189 1750) of Policy and Regulation Department, Anhui Provincial Economic Commission: "The Current Problem of Enterprise Losses and Its Solutions"—Responsible Editor: Shi Yinsheng (0670 1377 3932)]

[Text] I. Main Features and Causes of Losses Suffered by Enterprises at Present

Losses suffered by enterprises have long been a striking problem hampering China's national economic development. Particularly in recent years, enterprises' losses have continued to soar, imposing a heavy financial burden on the state and posing difficulties for enterprises to participate in competition and to operate and develop independently. According to statistic figures released, the amount of losses seems to have declined in the first half of 1993. The statistics show that from January through June last year, 31.1 percent of the state-owned industrial enterprises listed in the nation's budget operated in the red, a drop of 0.9 percentage point from the same period of the previous year. The amount of losses was 13.2 billion yuan, down by 16.5 percent compared with the losses registered a year ago. However, the declined figures were attributed mainly to a change in the petroleum industry's accounting procedure. In June last year, the petroleum industry included in the profit and loss statement a price-differential income of 3 billion yuan resulting from an upward adjustment of the price of crude oil sold during the first half of that year. If this extra income had not been taken into account, the total amount of losses suffered by the nation's industrial enterprises for the first half of 1993 would have been 17 percent more than the previous year's corresponding period. In July, the losses suffered by these enterprises soared sharply to 3.96 billion yuan. As can be seen from accounting figures, the losses for July was 51.5 percent more than that for June and showed a 200 percent rise, compared with the same month of the previous year. The increase in the number of loss-suffering enterprises and in the total amount of losses reported for July was due, in part, to the introduction of a new financial and accounting system, which brought to light the hidden losses of some enterprises. Another reason for the increased losses was that some enterprises suffered more operational deficits than before. Overall, enterprises' losses are generally caused by the following factors:

1. Enterprises are short of working capital. Because of the shortage of working capital, some enterprises have no money to buy raw materials, and production is in a state of suspension or semi-suspension. Since the beginning of last year, one-third of the enterprises in Chongqing City in the fields of the light, textile, and chemical industries have totally or partially suspended their production, and the staff members and workers put on the "special leave"

status have exceeded 100,000. These staff members and workers receive only a living allowance of about 50-70 yuan a month from their employers. In Jiangsu Province, 649 enterprises had totally or partially suspended their operations, and 297,000 people's jobs had been affected as of the end of July.

2. Transportation facilities are inadequate in all places. During the past few years, with the accelerated pace of the reform and opening-up drive, production and construction have developed by leaps and bounds, the economy has developed quickly in coastal areas, and imports and exports have grown steadily. All this has made our transportation facilities even more inadequate to meet the demands. During the period from January to July, our gross industrial output increased 25.1 percent, but the volume of goods transported declined 0.3 percent. At some critical points along the trunk railways, the freight-handling capacity can only meet 30-40 percent of the requirements. As transportation capacity falls short of the demands, large stockpiles of raw materials and other supplies in inland provinces cannot be sent out, nor is it possible to fully utilize the processing capacity and marketing advantage of coastal areas. Under such circumstances, quite a number of enterprises have to base their production plans on the transportation space available and rely on transportation facilities for their "survival." Unfortunately, the problem that out-bound cargoes cannot be loaded on the train and sent out promptly and in-bound cargoes cannot be unloaded in time to meet the needs has become more and more acute with each passing day.

3. State-owned enterprises have to bear heavy financial burdens and are faced with a relatively serious problem of unfair competition. First of all, they have a heavy tax and profit-contribution burden. In 1991, the output value of state-owned industrial enterprises accounted for 64 percent of the nation's total, while the revenue they turned over to the state made up 79 percent of the total revenue contributed by enterprises. For nonstate-owned enterprises, the percentages were only 36 percent and 21 percent respectively. In 1991, state-owned enterprises gave 94.8 percent of their revenue to the state in the form of taxes and profit contribution. The percentage of revenue turned over to the state as taxes and profit contribution was 76.6 percent for collective enterprises and 51 percent for other enterprises (including the three kinds of foreign-funded enterprises). Second, state-owned enterprises have too many superfluous personnel. In most cases, 20-30 percent of the personnel are superfluous. But they cannot be dismissed because so far our society has no sound unemployment-welfare or social-security system to take care of them. Besides, there is a large number of retired workers that the enterprises must take care of. In most state-owned enterprises, the retired personnel are equivalent to 22 percent of the incumbent employees. In some old enterprises, the retirees and the incumbent employees are in a 1:1 ratio. Third, the enterprises have to bear the heavy burden of providing social welfare benefits to their employees. All the above

have intensified the problem of unfair competition among enterprises of different ownership systems. This, coupled with state-owned enterprises' own problems regarding operational mechanisms and management, has curtailed their growth and slimmed down their share in the nation's gross value of production. In 1991, the output of state-owned industrial enterprises accounted for 63.8 percent of the nation's gross value of industrial production. It fell to 59.2 percent in 1992 and 53.9 percent in the period January-July 1993.

4. There have appeared more factors causing the expenditure to increase and revenue to shrink. Beginning 1 July, the railway freight rate has increased by an average 1.5 fen per ton-km. The electricity charge also rose on 1 July by an average 2.75 fen for each kwh. The interest rate on bank loans has been raised twice by 0.8 and 1.38 percentage points, respectively. All these factors have increased the enterprises' expenditure and reduced their revenue.

5. A new financial and accounting system has been put into effect. The "General Financial Guidelines for Enterprises" and "Guiding Principles for Enterprise Accounting," both effective on 1 July, have enabled enterprises to raise their depreciation rate, increase their technological development expense, and set up a reserve for bad debts, thus boosting their capacity for sustained development. In doing so, however, they have also increased their operating costs. In addition, the new financial and accounting system has exposed the hidden losses and, therefore, reduced the profit figure on the book. This has aggravated the problem of losses suffered by enterprises.

II. Attitude To Be Taken Toward Losses Suffered by Enterprises

In the market economy, profit and loss are both normal for enterprises. In foreign countries, some enterprises are constantly operating in the red. It is, therefore, not surprising that some enterprises in our country have suffered losses. To eliminate all loss-suffering enterprises in developing the economy is not a realistic thinking. However, if more than one-third of our enterprises are suffering losses, the situation is abnormal—it indicates that some aspects of our economy should be adjusted. In view of our current situation with respect to loss-suffering enterprises, we should at least do the following:

1. We should maintain a relatively stable macroeconomic environment. Facts have proved that in our country the proportion of loss-suffering enterprises to the total number of enterprises is closely related to the macroeconomic environment. When the macroeconomic environment is "hot," there are always a greater number of enterprises suffering losses. By maintaining a relatively stable macroeconomic environment, we can perceive the real situation of losses suffered by enterprises and how serious the problem is. This will also help ensure the relative stability and correct the abnormal swelling of the number of loss-suffering enterprises.

2. Among the loss-suffering enterprises in our country, a sizable number have suffered losses for a long time. Some are already in a state of less assets than liabilities. We have tried for a long time to "rescue" these enterprises, but without success. As a matter of fact, if these enterprises are incorrigible, we should resolutely let them go bankrupt and close down. Prolonging the status quo can in no way help these enterprises stop losses and increase profits, nor is it possible to make effective use of the state assets held by them.

3. An enterprise's deficit often involves a number of factors. One factor may be the incompetence of the factory director. Another factor may be too heavy financial obligations apportioned to the enterprise. Still another factor may be that its line of business is not right from the very beginning. So the work of stopping enterprises' losses and increasing their profits should not be just "whirling" among economic departments. Rather, it should be attended to by the entire society.

III. Several Measures To Stop Enterprises' Losses and Increase Their Profits

1. It is imperative to rationalize the property rights of enterprises and transform their operational mechanism. Now, while transforming enterprises' operational mechanism in accordance with the "Regulations on Transformation of Operational Mechanism of Industrial Enterprises Owned by the Whole People," some local authorities and enterprises have gradually extended their reform efforts to rationalizing property rights. State-owned enterprises can be divided into two groups in terms of their property rights. One group must keep to the state ownership. This group consists mainly of big and extra big enterprises in the basic sectors of the national economy. We should clarify the property rights and beef up the management of the state assets held by these enterprises. Under the legal-entity property system, we should grant these enterprises the status of legal entities and go all out to reorganize them into companies in an effort to form a modern enterprise system. The other group are enterprises that can have multiple property rights. They include predominantly those engaged in competitive production. In addition, we should rationalize the relationship between the central and local property rights and take various steps to transform state-owned enterprises into shareholding enterprises, such as selling a part of their original and newly acquired assets as shares to collectives and individuals, absorbing investment from other enterprises and the public, and developing joint ventures, legal-entity shareholders, and proprietary companies.

2. With respect to our guiding thought for economic work, we should shift emphasis from speed to efficiency. So far, comrades in some localities, departments, and enterprises have not changed their thinking and viewpoint. When addressing the question of accelerating development, they stress the need to boost the output value, increase the speed of growth, launch new projects, and expand the scope of development. They regard the

work of stopping losses and increasing profits and the campaign to raise efficiency as non-concrete tasks, which require great efforts but yield no appreciable results. This is a misunderstanding. No matter how fast the economy grows, it is of no use if things are done without efficiency. At this time, it is important to speed up the self-sustaining development of the whole economy and make every effort to raise our economic efficiency. In no way should we blindly seek a high-speed growth of production.

3. Enterprises should continue to devote their efforts to meeting market demands. They should study the law of market, do well in market forecasting, and take an active part in market competition at home and abroad. Based on market demands and their own conditions, they should develop new products in good time and make ceaseless efforts to explore new markets in accordance with the law of value. Meanwhile, they should adjust their operational strategies from time to time in line with the demands on the market and changes in the environment and dare to find ways for their survival and development amid acute competition. In addition, they should gear up the marketing work and offer good after-sale service.

4. Great efforts should be made to promote technological progress. More work should be done to let enterprises have decision-making power with regard to technological transformation and investment. It is imperative to ensure the progress and completion of the projects currently under construction and see to it that they are put into operation and meet the production targets as scheduled. In particular, enterprises should do well in introducing advanced technology from abroad and energetically translate successful scientific and technological research results into new productive forces. Meanwhile, they should further improve their product quality, strenuously follow and make perfect the comprehensive quality control procedure, and institute a quality assurance system. And they should launch an extensive and in-depth campaign to achieve double increase and double the economy [a campaign to increase production and practice economy and to increase revenue and retrench expenditures].

State Adopting Measures To Guard Against Asset Losses

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19 Apr 94 p 1

[Article by Xin Hua (6580 5478): "The State Is Taking Steps To Curb the Loss of State Assets"]

[Text] The erosion of state assets is being paid great attention by the departments concerned, with the state now taking steps, such as perfecting laws and intensifying reform of our state assets management system, to solve the problem of state assets losses. The erosion of state assets occurs mainly during the establishment of

"the three kinds of foreign trade" and shareholding-system enterprises, when scientific appraisals of state-enterprise assets are not or were not made, thus turning state assets through various channels into collective, individual, and foreign-firm assets, for a loss to the state.

A survey conducted in 1993 found that of over 10,000 state enterprises operating as Sino-foreign joint or contractual joint ventures, evaluations of the Chinese side's assets had been conducted in only one-third of the cases. And most enterprises evaluate only book assets, creating a loss of state assets of about 30 billion yuan a year.

Not evaluating or undervaluing state assets when organizing shareholding enterprises are also common. In addition, the uncompensated use of state assets to set up enterprises and administrative-institution units of all [ownership] natures, also causes erosion of state assets.

It is estimated that in the last decade, state-assets losses have amounted to about 500 billion yuan, making tax and state-assets losses two major severe problems for the Chinese economy.

While developing a market economy, the Chinese Government has always adhered to the dominance of the state-owned economy in our national economy. Even now, key products of importance to the national economy and the people's livelihood are still produced mostly by state enterprises, which still provide most state revenue. The economic might of state enterprises is growing steadily, with state assets worth 2.6846 trillion yuan in 1991, and growing 14.3 percent to 3.0697 trillion yuan by 1992.

Analysis shows that the key reason for the loss of state assets is that the state has not yet established a uniform and effective state assets management system, with the functions of current state assets management departments at all levels not having been converted, and pertinent state assets management laws incomplete, leaving state assets management lacking a grounding in higher level and more authoritative laws. In addition, as property rights mechanisms have not yet been provided access to enterprises and, when property rights are sold, certain local governments practice improper administrative interference, artificially forcing down the proportion of state-asset shares in "the three kinds of foreign trade" and shareholding enterprises.

To change this severe loss of state assets, China is now taking a series of steps.

First, we are inventorying in a planned way state assets and funds, through which we are clarifying our resources, to verify and appraise state capital funds. We completed this task for 10,000 state enterprises in 1993, and will do so for another 10,000 in 1994.

We have given permission to over 1,000 accounting and auditing agencies throughout China to provide assets-evaluation services, paving the way for valid and accurate assets evaluations of all concerned parties when state enterprises sell [transfer] property rights.

Meanwhile, enterprise assets-evaluation certificates certified by the state assets management sector have become essential examination and approval documents for upgrading enterprises to Sino-foreign joint ventures and shareholding.

It is understood that the NPC Standing Committee is now drafting a "State Assets Law," which will be included in its immediate legislative plans, and is speeding up the formulation of "Terms for the Oversight and Management of State Enterprise Assets," and evaluation targets and methods for state assets value-preservation and appreciation.

State Administration of State Property officials say that for all future state-enterprise property-rights alterations, we will conduct inventories of assets and funds, delimiting property rights, settling bonded debts, and registering property rights, to establish a rigorous examination and approval system.

Symposium Discussing Modern Enterprise System

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[Article by Shan Shan (1194 1194) of the Scientific Research Bureau under the Chinese Academy of Social Sciences: "Consolidated Report on Symposium Discussing Theory and Practice of Modern Enterprise System"—Responsible Editor: Xiao Da (2556 6671)]

[Text] To carry out the guidelines contained in the decision of the Third Plenary Session of the 14th CPC Central Committee, transform China's state-owned enterprises into companies, and establish a socialist modern enterprise system in our country, the Institute of Industrial Economics under the Chinese Academy of Social Sciences sponsored a "Symposium on Theory and Practice of Modern Enterprise System" in Beijing from 30 November to 3 December 1993. Attending the symposium were factory directors and managers from nearly 40 medium-sized, large-, and extra large enterprises around the country and economics scholars in the capital.

Proceeding from reality, the entrepreneurs summed up the experiences and lessons obtained in recent years in conducting enterprise reform and exchanged their views on how to build a modern enterprise system in our country. The economists expounded the essence and the prime importance of building such a system from both the theoretical and practical viewpoints. They also discussed such questions as theoretical and practical difficulties in building China's modern enterprise system as well as ways, methods, and strategies to be adopted to

transform existing enterprises. One salient feature of this symposium was that economists and entrepreneurs got together to discuss an important issue on economic reform. Highlights of the symposium follow:

I. Contents and Essence of Modern Enterprise System

The Third Plenary Session of the 14th CPC Central Committee decided unequivocally that the reform of our state-owned enterprises should be oriented toward the modern enterprise system. What is the modern enterprise system? What are covered by this system? But what is its essence? These were priority and principal questions studied and discussed by the participants in the symposium. As can be seen from their discussions, the modern enterprise system is very comprehensive in nature, and divergent views existed on the tasks of building such a system in our country.

1. The modern enterprise system has come into being to suit the needs of meeting the needs of the market economy. Its basic components are: a) a legal-entity system whereby enterprises themselves are responsible for their profits and losses; b) an enterprise leadership system characterized by vertical delegation of power; c) a standardized financial and accounting system; d) an enterprise income distribution system which benefits all concerned, and e) an enterprise personnel and labor system whereby employment is based on two-way choice between the employer and employee. To build such a modern enterprise system, China must conduct thoroughgoing reforms in the above-mentioned five areas.

2. Tasks for building a modern enterprise system in China should include: a) Institution of a scientific property rights system. This requires the entrepreneurial management of the departments that deal with enterprise property rights. These departments should be able to reflect and adjust the property rights structure based on the given ownership. b) Rationalization of the enterprise organization. China's enterprise reform has developed from the implementation of the policy of granting power to enterprises to the stage of instituting a new enterprise system. Companies are the most typical, advanced and effective form of enterprise organization under the condition of the market economy. c) Improvement of enterprises' internal systems, aimed at switching their function from pure production management to all-round operational management. d) Transformation of enterprises' internal management systems, including the legal system, leadership system, unemployment insurance system, income distribution system, cadre and personnel system, and labor employment system.

3. The following objectives should be achieved in building the modern enterprise system: Enterprises should be relieved from the status of affiliation with government departments so as to truly separate enterprise management from government administration. They should become legal entities responsible for their own profits and losses and acting as the mainstay on the market. Their organizational and managerial systems

should be scientific and standardized. And there should be a real change in the government functions in relation to enterprises. To this end, the modern enterprise system should contain the following: a) a criterion for regulating the relationship between the government's administrative department and enterprises; b) a criterion for regulating the relationship between enterprises and the departments controlling and managing state assets; c) a criterion for regulating the relationship among owners, managers, and employees; and d) a criterion for regulating the relationship between investors' ownership and the property rights of legal entities.

4. The core of the modern enterprise system is the legal-entity system, that is, the system widely practiced in the world that treats companies as legal entities. It consists of many elements, including the systems for property rights, accounting, organization (types of enterprises), and management (organizations and departments). In essence, it has the following characteristics: On the one hand, the state holds the ultimate ownership of the property of state-owned enterprises, thus ensuring their public ownership. On the other hand, the enterprises, based on the property rights of the legal entities, are truly independent commodity producers and managers responsible for their own profits and losses, and they function as the mainstay on the market. The system of companies as legal entities serves as a link between public ownership and the market economy.

5. The key to instituting the modern enterprise system is to recognize the legal entities' property rights and the investors' rights of investment. The characteristics of the system in this respect are: clearly defined property rights, explicitly specified authority and responsibility, separation of government administration from enterprise management, scientific management methods, and suitability to the needs of the market economy.

6. The modern enterprise system has been created to meet the needs of the market economy. Therefore, it has the following characteristics: a) All enterprise activities are centered around the market. Enterprises base their production on supply and demand in the market and are the mainstay in market activities. b) Enterprises really operate on their own; they are no longer belongings of the government. c) All enterprise activities are based on profit-making. Enterprises themselves are responsible for their profits and losses and exercise self-restraint. d) Through the market mechanism, enterprises compete with each other on an equal basis and achieve self-improvement. Successful enterprises prosper, while those which fail in the competition are eliminated.

II. Questions To Be Resolved and Measures To Be Taken in Transforming State-Owned Enterprises Into Companies and Building the Modern Enterprise System

1. Question of understanding. Although the decision of the 14th CPC National Congress unequivocally points out that building a modern enterprise system represents the direction that all enterprises should keep to, and

most people understand in varying degrees the need for transforming state-owned enterprises into companies, some still take a negative or skeptical attitude toward this question. They equate the implementation of the shareholding system and the reform of the enterprise system and the property rights system to a change of the ownership system. According to these people, implementing the shareholding system and reforming the property rights system are acts of privatization. This is incorrect. It should be noted that the ownership system embodies the essence of the relations of production. It deals with property relations in the perspective of property ownership. The shareholding system, on the other hand, deals with property relations from the producers' standpoint. The new enterprise system is aimed at creating an effective form of the state-owned sector of the economy. The focal point is to change the ineffective state asset management under the old system and design an enterprise system compatible with the market economy. There is no such question as using the new enterprise system to change the socialist ownership system.

2. Rationalization of property rights relations and establishment of a new property rights system for state-owned enterprises. The state may, through entrusted management, enable enterprises to hold legal-entity property rights to state assets. This clarifies the state-enterprise relationship with respect to property rights. At the same time, the state should undertake limited responsibilities on the state assets used by enterprises.

3. Definition of property rights. While transforming enterprises into companies, how to scientifically classify and define property rights is a central question in building the modern enterprise system. In principle, the ownership of state assets belongs to the state, while enterprises possess all the legal-entity property rights resulting from the investments made by investors, including the state. However, the concept of ownership by the state is too generic and is apt to create a situation of no specific representative of the owner. For this reason, some participants in the symposium made the following suggestion: State property rights should be divided into different levels; that is, the owners should be diversified and the property rights held by different levels of government. According to our present government financial system, four levels of government can hold property rights, i.e., the central, provincial, prefectural, and county levels. Defining the property rights according to the principle that whoever made the investment has the property rights and receives the returns will help solve the problem of no definite state asset owner. As to more specific and complicated questions, such as how to define the property rights to new fixed assets resulting from technological-upgrading investment using enterprises' own funds or loans, some clear-cut provisions should be worked out. In this regard, some participants suggested that a concrete analysis be made of the technological-upgrading funds. If the principal and interest on the loan have been repaid, they said, the

related assets may be treated as shares held by the legal entity. If the enterprise cannot pay back the loan, the related assets should become investment by the state or the bank concerned.

4. Appraisal of assets. In transforming state-owned enterprises into companies, a key task is the appraisal of their assets. State assets should be appraised by independent intermediary service organizations. In doing this, it is imperative to minimize administrative intervention, seek truth from facts, keep to the "Provisions Governing State Asset Appraisal," and take into account both tangible and intangible assets. Appraisal of tangible assets should be based on their replacement value. The original inventory should be treated as shares held by the state, while additional assets should be turned into shares held by the legal entities. Land may be appraised in accordance with the State Land Management Regulations and the current land market price. Intangible assets should be transferred according to law with attention to protecting the creditors' due interests. As for patents and proprietary technologies, consideration should be given to such factors as the scope of application and approved duration of technical secrecy so that the appraisal will fully reflect their effective value.

5. Management of state assets. In addition to defining property rights and appraising assets, how to manage state assets is also a very important question in transforming state-owned enterprises into the shareholding system. A suggested solution is to establish a sound three-tier organizational structure for the control and management of state assets: a) Establishment of a state asset administrative department to ensure the effective utilization and appreciation of state assets. b) Establishment of intermediary organizations for managing state assets, such as investment companies, holding companies, and enterprise groups. This way enterprises engaged in production and other operations will not be linked directly to the government's administrative departments, thus ensuring the separation of enterprise management from government administration. c) Management of state assets in the same way as financial management with attention to preserving their value and ensuring their mobility.

6. Need to choose the right forms of stockholding in transforming state-owned enterprises. In line with China's actual conditions, the following forms may be adopted according to the types of investments: a) Companies wholly owned by the state. In general, this form is suitable for enterprises making special-category products or producing armaments. b) Stock companies with control shares held by the state. In most cases, this is suitable for backbone enterprises in the fields of pillar and basic industries. c) Stock companies with shares held by both the state and the enterprises as legal entities. Generally speaking, this is suitable for enterprise groups and enterprises with diversified investments. d) Stock companies with shares held by their employees. e) Stock companies which are Sino-foreign joint ventures.

7. Appropriate solution to problems left by enterprises. a) Debts. Although state-owned enterprises have undergone reform, in general their economic returns remain at a low level, and most of them are debt-ridden because the fundamental question of property rights has not been well resolved. According to estimates by the department concerned, industrial enterprises contained in the state budget are laden with working-fund loans and special-purpose loans, totaling 800 billion yuan. If all their profits were used to repay these loans, it would take 18 years to clear up the debts, calculated at the 1990 interest rate. The interest alone amounts to tens of billions of yuan a year. In view of this, some participants suggested that, in the transformation of the enterprises into companies, debts between legal entities be treated as shares given by the debtors to the creditors. b) Social welfare burdens. First, most state-owned enterprises have the problems of being overstaffed and a growing number of retired personnel of whom to take care. Statistics show that about 20 percent of their personnel are superfluous, and another 20 percent are retirees. In addition to establishing as soon as possible a social insurance system and an old-age insurance system to solve these problems, some participants suggested that, when appraising the enterprises' total assets, a proper amount of money be set aside as a settlement assistance fee to guarantee the livelihood of the laid-off and retired employees. At the same time, the laid-off and retired employees are encouraged to engage in the tertiary trade to support themselves. Second, enterprises are now providing social welfare benefits to their employees. This entails great difficulties, numerous problems, and remarkable contradictions. The work involved is extremely comprehensive and complicated. To provide such benefits to the employees not only brings numerous problems to enterprise management, but also creates contradictions between the enterprises and the government. It was suggested that, after the enterprises have been reorganized, their non-business facilities, such as dependent schools, clinics, mess halls, and housing agents, be operated by the new companies under a special program, and that a fee be charged for the use of these facilities. This will not hurt the shareholders' interests and, at the same time, satisfy the needs of the employees. Third, enterprises are burdened with unreasonably exacted fees. It is expected that this problem will be radically removed after the enterprises have been transformed into companies, their legal-entity status has been gradually clarified, and the reforms in the government's functional and other departments have developed in depth. At this time, it is imperative to strictly enforce the state regulations on banning unwarranted exaction of fees so as to lessen the enterprises' burden and facilitate their transformation into companies.

8. Establishment of a new management system within enterprises. After transformation into companies, state-owned enterprises should deepen the reform of their labor, personnel, income distribution, management, and leadership systems, optimize their structure, and quicken the change of their operational mechanism so

that they will have a higher labor productivity, better product quality, and lower production costs, all of which are prerequisite to success in market competition. First, with regard to the reform of the labor employment system, there are two major tasks: Enterprises should gain the power—namely, the power to hire employees. The government should build the market—that is, cultivate and transform the labor market. In this regard, some participants suggested a labor employment system based on two-way free choice between enterprises and employees and a combination of regular, contract, and temporary workers. In most cases, the contract worker system should be used, while, in a few special cases, the temporary worker system may be adopted. The above-mentioned three kinds of workers have different pay scales, but their status is not unchangeable. In addition, efforts should be made to improve the employees' performance evaluation system and the social security system. Second, it is necessary to modernize our enterprise management—from the management mentality to the ways and means of management—and to build a high-efficiency and quickly reactive enterprise organizational structure. In reforming enterprise management organization, the difficulty lies in how to separate supplementary units from main units, how to settle the surplus employees, and how to avoid double taxation after the separation of supplementary units and the formation of new enterprises. Third, a modern enterprise financial and accounting system should be established in compliance with the requirements set forth in the "General Financial Guidelines for Enterprises" and the "Guiding Principles for Enterprise Accounting." Fourth, it is necessary to standardize the activities of enterprises and accelerate the transformation of their internal operational mechanism. Fifth, the leadership system in enterprises should be reformed. Under the modern enterprise system, enterprises should have the power to manage their financial affairs, make operational decisions, and direct and supervise their production and other operations. Because of this, there should be a multilayered leadership system based on vertical delegation of power, consisting of the shareholders' meeting, board of directors, board of supervisors, and managerial group. These organizations should exercise power of major policy making, power of supervision, and power for the formulation and implementation of policies on day-to-day business. Meanwhile, the modern enterprise leadership system should adhere to the principle that the party plays a core role in the ideological and political work within enterprises. Also, it should carry forward the role of the workers' congress in democratic management of enterprises. Party committees, trade unions, and staff and worker representatives should get involved in the work of the boards of supervisors and directors so as to enlarge the scope and enhance the substance of democratic management of enterprises.

9. Acceleration of all supplementary reforms and improvement of enterprises' external environment. a)

We should change the government's economic management function and, instead, set up a macro-regulatory and control system relying mainly on indirect means: To this end, we should, first of all, deepen the price reform and form a pattern whereby the price is determined by supply and demand. Second, we should have a unified tax system so that enterprises can compete on the market on equal terms. Third, we should make all-out efforts to cultivate the market and form an integrated, open, and orderly market system so as to provide enterprises with a sound market environment. b) We should set up and develop various kinds of intermediary organizations and institute a system which requires these organizations to undertake certain responsibilities. c) We should create an environment for implementing the legal system so that there are laws for enterprises to follow in conducting their economic activities. This work includes the perfection of the Enterprise Bankruptcy Law. Meanwhile, we should form a property rights market and optimize the allocation of resources in society. c) We should build a multilayered social security system and improve the old-age and unemployment insurance systems. The social security system should start as a rudimentary welfare program, and its scope should be gradually expanded to include medical, housing, and education benefits. As to the financial sources for the insurance systems, the state, enterprises, and employees are required to share the burden in a reasonable way.

III. Ways and Means for Transforming State-Owned Enterprises Into Companies

1. Different views exist on the possibility of turning state-owned enterprises into companies: a) The transformation of state-owned enterprises into companies is due to the following reason: The organizational form and operational mechanism of wholly-state-owned enterprises cannot meet the needs of development of the market economy, and a general expansion of enterprise power is not a radical solution to the longstanding problems. Transformation of enterprises into companies will enable them to build sound mechanisms for promoting production and sales and for motivating, developing, and restraining themselves. Such transformation will also be an effective way to form a correct relationship between the state and enterprises. Now, in our country, the development of the multiple-ownership system, diversification of principal investors and beneficiaries, and expansion of lateral cooperation among enterprises have provided favorable conditions for developing stockholding enterprises. For this reason, we should turn state-owned enterprises into companies and speed up their transformation toward the shareholding system.) It is rather difficult to transform large and medium-sized state-owned enterprises into the stockholding system. Without proper solutions to the questions concerning asset appraisal, property rights, and employees' social welfare benefits, the shareholding system is only an exploratory, trial system, and most state-owned enterprises cannot be changed into companies. However, we may "copy the system to change our

mechanism." That is, we may copy the company's system, including its legal-entity status and internal management organization, to achieve the objective of transforming our enterprises' operational mechanism. To do this, we should continue to base the work on the "Law Concerning Industrial Enterprises Owned by the Whole People" and "Regulations on Transformation of Operational Mechanism of Industrial Enterprises Owned by the Whole People." We should give state-owned enterprises decision-making power with regard to management, grant them the status as legal entities, and establish as soon as possible an enterprise organizational system modeled on the management structure of companies.

2. Scope of transformation to companies (shareholding system): (a) Shareholding is a good system for developing the market economy and optimizing the ownership structure. Stock companies can sever the link between the government and enterprises and achieve the goal of separating ownership from the power of management. They are the most suitable form of enterprise organization for the development of the market economy. Therefore, all-out efforts should be made to popularize stock companies and make them the principal type of enterprises in China. Nonetheless, not all enterprises can be switched to the shareholding system. For this reason, state-owned enterprises should be transformed into the following different organizational forms: Enterprises of unitary ownership by the public with their capital owned by the central government or a local government at a certain level. Enterprises of multiple ownership by the public (which have been transformed into stock companies) with their capital owned jointly by the central and local governments or by different local governments. Enterprises with the government holding control shares—in these enterprises the government shares play a leading role. And enterprises with the government holding regular shares—in these enterprises the government acts merely as a regular shareholder, not as a controlling shareholder. (b) Relatively speaking, the shareholding system is suited to those large and medium-sized state-owned enterprises which have to face competition in doing their business and which should reorganize their production elements. Therefore, we should define a proper scope for the implementation of the shareholding system.

3. How to transform enterprises into companies. Most participants said that the majority of China's enterprises should be transformed into limited-liability companies. Specific comments were as follows: a) Transformation of state-owned enterprises into companies is to change the "factory-type" enterprises owned solely by the state and managed directly by the government into "company-type" enterprises with multiple investors and managed by the enterprises themselves. For most enterprises, the type of company to be adopted is the limited-liability company. This type of company has many advantages: Its capital can be pooled quickly, and its operation is relatively simple. The transformation is easy and not

costly. Its activities can be easily standardized. A small number of enterprises with heavy renovation or expansion tasks or requiring large amounts of funds for production and construction may be turned into limited-liability stock companies. In general, however, state-owned enterprises should not be transformed into wholly-state-owned limited-liability companies so as to avert the appearance of flipped-plate companies [fan pai gong si 5064 3654 0361 0674; referring to government institutions that have been turned into companies but illegally use previous government connections for profiteering], which will be a new obstacle to the in-depth development of the reform. Methods to avoid this are letting legal entities buy each other's shares, converting debts into shares, soliciting foreign investors, and absorbing capital from society as investment. b) The purpose of transforming our state-owned enterprises into companies is to correct a drawback of these enterprises, namely, the unitariness and abstractness of their property rights, and to separate government administration from enterprise management through the diversification of property rights and the clarification of relations of property rights. Therefore, in the transformation of enterprises into companies, only a few of them should be turned into companies of sole proprietorship, while most should become limited-liability companies or limited-liability stock companies with diverse investors. The choice depends on the enterprises' internal and external conditions. In foreign countries, big enterprises are generally limited-liability stock companies, while most small and medium-sized enterprises are limited-liability companies. In China, we should try to limit the number of companies of sole proprietorship when transforming our state-owned enterprises into companies. To do this, we should let legal entities become shareholders and encourage them to buy each other's shares. c) Judging from China's actual conditions, it will be impossible to turn all state-owned enterprises into listed stock companies. Most enterprises should be transformed into either limited-liability companies (including Sino-foreign joint ventures) or wholly-state-owned companies. d) One of the significant reasons for proposing a modern enterprise system is to treat wholly-state-owned companies as a company category and, in a certain sense, distinguish them from stock companies. Under the present circumstances, however, wholly-state-owned companies are viewed as a kind of limited-liability company rather than a separate category. Compared with state-owned enterprises, whole-state-owned limited-liability companies represent a leap from unlimited-liability enterprises which are not legal entities to limited-liability enterprises which act as legal entities. The transformation of big and medium-sized state-owned enterprises into limited-liability companies may be carried out as an intermediate step. In the future, however, most of them should be turned into stock companies or openly listed stock companies.

4. The question of legal entities as shareholders and legal entities holding each other's shares. Following views were expressed at the symposium: a) In transforming

state-owned enterprises into companies, we should let legal entities hold shares and especially, hold each other's shares. Participants holding this view deemed it necessary to stress the need for companies as legal entities to possess shares in order to diversify the share ownership. According to them, state-owned enterprises should possess each other's shares so as to nullify the ultimate-ownership mechanism and give prominence to the rights and interests of those who actually manage the enterprises. Over time, the pertinent government departments' authority over the enterprises will gradually become nominal, and the enterprises will be able to operate on their own. b) Reasons for promoting legal-entity shareholders in the transformation of enterprises into companies: One is to change the original meanings of the ownership systems. Since legal-entity shareholders represent thousands upon thousands of individuals, shares held by legal entities mean shares held by the masses. As a result, the original "pure private ownership" will become something close to a "social ownership." Capitalist ownership will no longer be a pure private ownership system. A similar diluting effect will be exerted on the socialist ownership system as well. The second reason is to greatly weaken the shareholders' rights and boost the managers' rights. The third reason is that with legal-entity shareholders, management will not be easily dictated by individual shareholders' short-sighted activities aimed at seeking dividends. c) Some entrepreneurs expressed a different view about letting legal entities become shareholders and hold each other's shares. Letting them hold each other's shares, they said, may be a very effective way for enterprise transformation in the future. But under the current circumstances where most enterprises are suffering losses in varying degrees and experiencing capital shortage and financial difficulty, how can they buy each other's shares? This is impractical at least at this time, they added.

5. In discussions, some theoreticians and entrepreneurs noted that, in the transformation of enterprises into companies, a not-to-be-slighted question is that the reform of Chinese enterprises' property rights must be accompanied by the establishment of an entrepreneur system. History has proven that managerial professionals constitute an inevitable social stratum whether in feudal or capitalist society. This stratum makes perfect the model of separation of management and ownership. The birth and formation of the entrepreneur system is not merely of importance to management science. Rather, its importance to economics outweighs its importance to management science. The entrepreneur system constitutes an integral part of the modern capitalist property rights system. When a consensus has been reached on reorganizing the property rights related to our state-owned enterprises, the next question to be understood by all is that our institution of the enterprise legal-entity system must be closely integrated with the formation of an entrepreneur system.

Inflation: Causes, Effects, Remedies, Suggestions

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10 Apr 94 p 1

[Article by Xiang Xiaofang (0686 1420 2397): "A Longer Rope Is Needed To Control the Wide Horse of Inflation"]

[Text] Sufferings of a Benchworker in a Wave of "Price Increases"

The 200 million urban residents in China have begun to receive the tremendous pressure since the beginning of 1994. Right after absorbing the two-digit inflation in 1993, they have witnessed the tide of rural workers who have flooded the cities. When the raging tide of rural workers slightly subsided, they are once again awakened by the loud clamors of "price increases."

Under the influence of increasing demand and high production costs, the market price had sharply increased in January. The prices for consumer goods in January rose 23.1 percent as compared with that of the same period in 1993. The rate of increases for food, clothing, health care, entertainment, education and culture was even relatively higher.

Due to the after-effect of the excessive amount of currency in circulation, the price of basic industrial products continued to rise on a large scale in February, and signs showing price increases were everywhere on the market. The rate of price increases for the first two months in 1994 still exceeded 20 percent over the corresponding period in 1993.

Since the People's Bank of China had once again handled value-guaranteed saving deposits on 11 July 1993, it had, for the first time, announced that the annual subsidy rate for value-guaranteed saving deposits was set to 1.19 percent in March 1994. The All China Federation of Trade Unions also made public that about 7 million workers are badly off in the whole country.

On the eve of the "two sessions," Fang Shunping, a benchworker in Yongsheng Machinery Plant in Fuzhou, Jiangxi narrated a pathetic story to a grassroots-level trade union cadre about how he suffered from the skyrocketing commodity price.

He said: "Our plant suffered financial losses since last year. I and my wife persistently worked hard everyday. Our combined wages total slightly over 300 yuan.

"Our chubby boy is a fourth-grade student. He does not care much about food or clothes. The only thing he likes most is to play the game machine. However, I cannot afford to buy a game machine.

"In order to play the game machine, my son let those students with game machines to ride him as a horse everyday. Once I discovered that, I pulled my perspiring son to the side, and asked him why he did something

stupid like this? He said nothing, but struggled to get free and ran away. Only when he came home, did he tell me the reason in tears.

"In the evening, my son who finished his homework told me quietly: 'Dad, buy me a game machine please. If I have a game machine, I will not let other students ride me as a horse.'

"I felt really bad. Hugging him tightly, I said: 'It is not that I am unwilling to buy you a game machine. It is just because that commodity price is so high that I cannot afford to buy the game machine. I can barely buy food with what I earn. I really cannot help you.'

"My son seemed to understand my plight. With grievous disappointment, he went to bed. That night, I could not sleep. The price is going up and up like a balloon filled with hydrogen gas. Why is that?"

The question posed by Fang Shunping is also in the minds of the 7 million workers who are badly off. Whoever listens to his grievances is not only the basic-level trade union cadre. These workers often hear that they must pay a price for carrying out reform. They only want to know how high the price they need to pay this year. They also understand that they need to withstand hardship in order to successfully carry out reform. They only want to know for what they need to suffer so much.

Probe Sources of High Price Index

The civilian sector and the government have their own forecasts for this year's general level of retail sales. Not long ago, the "Department of Macro-Economic Analysis of China" conducted the 6th survey on China's economic situation by distributing questionnaires to the specialists concerned. One hundred fifty-eight economists expressed their own views on this. According to statistics, 32.9 of them predicted that the rate of increase of retail sales will be in the range of 12-14 percent; 29.1 percent of them predicted 8-10 percent; and 22.8 percent of them predicted 12-14 percent. Some young scholars conducted simulated tests on the economic situation in 1992 and 1993. Their conclusion was that if the rate of economic growth in 1994 is maintained at approximately 10 percent, then the rate of increase of retail price index will be in the range of 12-13 percent. Their judgment has been proven correct by the red light shown by the price indices of the three months in this year's first quarter. Therefore, high commodity price will remain the major rhythm in 1994. There are five reasons for this.

1. After-Effects of Price Reform. Since the price reform, more than 80 percent of the price for means of production and 90 percent of the price for means of subsistence have been completely decontrolled. The seriously distorted price structure has been gradually corrected by the large price increases for the basic industrial products. For example, after its decontrol, the price of grain and fuel rose by 35.5 percent and 78 percent, respectively. These large price increases for basic capital goods and

consumer goods have pushed up the production costs of farm products and industrial manufactured goods, and made the prices for products manufactured by related industries to go up. As seen from the situation in 1994, the series of price adjustments recently announced will become a major reason for pushing up China's general price index for this year.

2. Excessive Issuance of Currency. Prior to this round of inflation, the amount of currency issued in 1992 was increased by 115.9 billion yuan as compared with that in 1991. Because of the multiplicative effect, the issuance of 115.9 billion yuan basic currency is equivalent to derivative loans of 200 to 250 billion yuan. The additional currency issued in 1992 not only helped awaken the enthusiasm in production and consumption, which was dampened by the campaign for improvement and rectification of the economic order, but also pushed the 1993 commodity price to a high rate of 13 percent. Thus, the 1993 policy of putting more money into circulation in support of high economic growth (50 percent higher than that in 1992) will definitely impose a burden on the economy in 1994. Excessive currency issuance accounted for 5.5 percent of the total blame for the inflation in 1993. It is estimated that this figure may exceed 7 percent this year.

3. Rising Cost of Social Labor. In order to arouse the enthusiasm of workers, enterprises that are making good profits often increase workers' wages and bonuses. The total amount of wages for workers in 1993 grew approximately 20 percent over 1992. Those local governments with more money also increase subsidies to their administrative personnel. The plan to readjust salaries of government employees announced in October last year had given pay raises to all members of the civil service. Due to the rigid nature of the wage system, it has objectively raised the cost of social labor and become a major factor in pushing the price up.

4. Restraints by "Bottleneck" Effect and Resources. These two types of restraints have always been hampering economic development. If the rate of economic growth is maintained at approximately 10 percent, the effect of the two types of restraints will be felt even more distinctively. It will make the price of relevant products to sharply increase.

5. Rapid Investment Growth. Over a protracted period of time, the rapid growth in demand for investment is the major factor in China's economic growth. However, the year of high investment often means a year of high prices. The main reason is that price increases are caused by increasing investment and by the imbalance between supply and demand due to irrational investment structure or poor investment performance.

Government Is Determined To Tame "Wild Horse of Inflation"

Due to lack of information and other reasons, the general public in China often fails to foresee an inflationary trend. However, the high commodity price for two years

running has exerted great pressure on the residents psychologically. For the first two months in 1994, the retail price for consumer goods on the domestic market was up 25.9 percent over that in 1993. People are on the verge of panic buying. The issue of commodity price becomes the focus of deputies' conversation at the "two sessions" and arouses the close attention of the government leaders. At the group meeting with the Beijing deputy group of the Second Session of the Eighth National People's Congress held on 12 March, Premier Li Peng said that it is necessary to exercise the macro-control in the course of decontrolling price. At the group meeting with the Hunan deputy group on the same day, Vice Premier Zhu Rongji emphatically pointed out that in order to keep down prices, the CPC Central Committee and State Council decided to adopt the following four measures: 1) Efforts should be made to control the size of investment in fixed assets and that of consumer spending. 2) The governments at all levels must pay full attention to agriculture and the "shopping basket" project. 3) The government must strengthen the macro-control over market price. 4) In the very near future, a series of economic measures will be taken to keep down prices. Prior to and after the two sessions, the State Council in late March decided to conduct a major checkup of commodity price. This checkup is expected to last three months. It also instructed the State Planning Commission to work in coordination with the supervisory, financial, taxation, auditing, and technical control departments as well as the industrial and commercial administration to form work teams to go to various provinces, autonomous regions and municipalities under the direct administration of the government to help carry out the work of price checkup. Some local governments have also worked out rules and regulations to prevent people from making sudden huge profits in order to keep down prices. All these measures were highly praised by economists and ordinary residents. They appreciate the efforts made by the government in quickly tackling the issue of inflation which is menacing the rapidly developing economy. At the same time, an official of the Ministry of Labor stressed that the state has officially promulgated the "Regulations on Minimum Wage in Enterprises" aimed at ensuring that each worker will earn at least the minimum wage with which he can meet the basic needs in livelihood for himself and his family members. The official also asked various localities to make wage adjustments from time to time according to the living expense index.

Taking Part in Investment, You May Run Faster Than a Wild Horse

Whether you are willing to do so or not, you will feel an impulse to make investment and like to increase your credit, as long as China maintains a high rate of economic growth. This kind of economic growth on the basis of credit will make you live with inflation.

For most of the wage earners, no one is living like Lang Shunping any more. Right now, the total amount of savings deposits in rural and urban areas has reached

1.65 trillion yuan. If we count the cash in residents' hands, the social capital in China has reached 2 trillion yuan. Economists pointed out that we must make all kinds of investments in order to preserve and increase the value of the money while living in an inflationary environment.

During the 1980's, people in China only have two totally different markets. One is the market of consumer goods for basic subsistence, while the other is one for expensive high-quality merchandise. In recent years, stocks, bonds, fund-raising associations, real estate agencies and rural foundations of a shareholding and cooperative nature have emerged. In face of all types of investment programs with higher investment returns, more and more urban residents want to make money not only for filling their shopping baskets, but they also for buying houses, investing in stock and taking part in other investment programs. Signs have indicated that more and more people are investing money in China's capital market. The main participants of the capital market will be the 200 million urban population and the 30 percent of the rural population—peasants who are capable of extending reproduction. The growth of this major group of investors means that the state-run economic sector may gradually let the nongovernment economic sector to share the market. Meanwhile, it is precisely because of the nongovernment financing market which has attracted a huge amount of currency on the market that the "wild horse of inflation" was reined in to a certain extent and a runaway inflation of more than 30 percent as predicted by some economists did not appear.

At a time when individual investments aimed at withstanding inflation and achieving social diversity have gradually become the common choice of hundreds of millions of people, various strategies and tactics for investment are being offered to all those who are interested in making investments. If you want to invest in stock, you must understand the company which floats the stock, and read reports on its financial situation. If you buy and sell bonds, you must know how to calculate the earning rate. If you handle transactions in futures, you must pay attention to the price of rice and cotton at home and abroad and even the situation concerning ocean freight as well as the weather conditions and political situation in various countries. If you buy and sell foreign exchange, you must be able to predict the changes of economic policies of the major countries, and understand the rules and regulations governing the international foreign exchange market. If you make investment in real estate, you should at least take into consideration the prospect and the potential value of the estate in that area... [JIDIAN RIBAO ellipsis]

After securities were officially issued for the first time in Shanghai in January 1985 and in Shenzhen in May 1987, four shareholding enterprises in Beijing also openly floated 175 million shares of stock on the market at the end of March 1994. Stock which was once regarded as "torrential flood and wild beast" withstood the test of the reform program and is now available to the general

public after nine years in one locality and seven years in another. This is something of great symbolic meaning on Mainland China. At a time when ordinary people in China, who had little sense of investment and never dreamed about becoming rich before are allowed to pursue capital gains with open arms, why should you hold your cash tight and worry about the plus or minus few percent of the inflation rate?

PROVINCIAL

Heilongjiang Communique on Economic, Social Developments

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[Text] In 1993, under the leadership of the provincial party committee and the provincial government, the people acted diligently in the spirit of the 14th National Party Congress and the Third Plenary Session of the 14th Party Central Committee, focused on the development of the socialist market economic system, further liberated their thinking, seized the opportunities, overcame hardship, and went all out to promote socialist modernization. The national economy maintained its steady pace of development; its economic strength continued to grow, and the living conditions continued to improve. Preliminary data showed that the GDP for the year was 102.8 billion yuan, a 4.9 percent increase over the previous year's. Specifically, the primary, secondary, and tertiary industries grew by 4.8 percent, 4.4 percent, and 6.1 percent, respectively; they account for 19.9 percent, 58.3 percent, and 21.8 percent of the GDP, respectively. The main problems in the economy were the presence of tight bottleneck sectors, industrial production's slow-growth, the lack of overall economic efficiency, and the fairly high rate of inflation.

I. Agriculture

Agricultural production continued to grow. In 1993, the provincial party committee and the provincial government introduced a series of policies and measures to strengthen the agricultural sector and protect the peasants' interests and effectively mobilized the peasants' production enthusiasm. The year's GVAO [Gross Value of Agricultural Output] was 33 billion yuan, a 2.3 percent increase over the previous year's; the realized added-value came to 20.42 billion yuan, a 4.8 percent increase. In particular the planting industry's added-value was 16.31 billion yuan, a 6.2 percent increase.

The mix of crops changed fairly drastically, and the planting area of good-selling, high-efficiency (value) crops was expanded while the area of low-efficiency (value) crops was reduced. The province's grain crop planting area totaled 7.558 million hectares, 209,000

hectares more than in the previous year. Specifically, 2.979 million hectares of soy bean was planted, 81,900 hectares more than before; 93,00 hectares of mixed beans were planted, 41,000 hectares more than before; the planting areas for rice was reduced by 43,000 hectares, wheat by 27,800 hectares, and corn by 389,999 hectares. Total grain production reached 23.908 million

tons—245,000 tons, or 1.04 percent, more than in 1992, a year of bumper harvest; it set a historical record. Cash crop planting area totaled 591,000 hectares, 93,000 hectares less than in the previous year. Planting areas for oil crops, flax, beet, and tobacco were reduced compared to the previous year. Total output of the main agricultural products is shown below:

	1993	Percentage of increase over 1992
Grains	23.908 million tons	1.04
Rice	3.883 million tons	3.1
Wheat	3.400 million tons	-20.0
Corn	9.566 million tons	-8.3
Sorghum	733,000 tons	42.6
Other food grains	281,000 tons	30.1
Soybean	4.915 million tons	40.8
Potato family	860,000 tons	13.6
Oil crops	161,000 tons	-26.5
Flax	170,000 tons	-12.8
Beet	2.987 million tons	-44.7
Curing tobacco	116,000 tons	-7.9
Vegetables	6.723 million tons	16.3

Forestry and afforestation work made good progress. In 1993, the province's forest industry realized 640 million yuan in added-value, an increase of 1.9 percent over the previous year's. It created 249,000 hectares of forest land, a 3.8 percent increase. The quality of the created forests continued to improve, and forest fire prevention was strengthened.

Livestock production increased steadily. For the year, the livestock industry realized 2.998 billion yuan in added-value, a slight decline of 0.9 percent from the previous year. The following table lists the quantity of major animal products and the number of livestock on hand:

	1993	Percentage of increase over 1992
Pork, beef, mutton output	672,000 tons	7.2
Pork	543,000	4.2
Beef	111,000	26.1
Mutton	18,000	0
Egg production	493,000	7.4
Milk production	1.341 million	-1.9
Lamb wool production	11,000 tons	-8.3
Fattened pigs slaughtered	6.46 million heads	5.2
Poultry slaughtered	97.902 million fowls	5.9
Draft animal on hand at year-end	4.410 million heads	8.6
dairy cows	670,000 heads	-3.7
Pigs on hand at year-end	7.931 million heads	3.9
Sheep on hand at year-end	3.275 million heads	6.1

Fishery products continued to increase. The industry's added-value came to 476 million yuan for the year, 5.8 percent more than in the previous year. Aquatic production came to 189,000 tons, a 6.2 percent increase. In particular, the breeding industry's total output was 141,600 tons, a 9.2 percent increase.

Agricultural production conditions continued to improve. In 1993, the province's chemical fertilizer utilization rate was 1.002 million tons (converted to pure fertilizer), a 13.3 percent increase over the previous year. The rural area's electricity usage came to 2.2 billion kwh, a 4.8 percent increase. By year-end the province had

11.853 million kw of power-driven farm machinery, a 1.1 percent increase. It had 85,000 large- and medium-sized tractors, a 3.4 percent decline; 387,000 small tractors, a 2.4 percent increase; 10,000 heavy-duty trucks for farm use, same as the year before. It had 1.369 million kw of power-driven drainage and irrigation machinery, 4.6 percent more than the year before; 77,000 mechanical thresher, a 1.3 percent increase; 142,000 farm-use water pumps, a 6.0 percent increase. Irrigation and water conservancy projects continued to be strengthened, with 164,000 hectares of effective irrigated area, 0.6 percent more than in the previous year.

The rural economy underwent comprehensive development. In 1993, Heilongjiang's rural industry, construction industry, transportation industry, business and restaurants, and other nonagricultural sector's output value grew by 52.1 percent. They accounted for 50.3 percent of the rural society's total output value, up from 41.1 percent. Township enterprises achieved extraordinary, unprecedented growth—the province's township enterprises' total output value topped 36.06 billion yuan, a 53.1 percent growth compared to 1992. Their realized profit came to 2.24 billion yuan, a 52 percent increase. They delivered 1.03 billion yuan in taxes, 40.3 percent more than a year ago.

II. Industry and Construction

In 1993, enterprise reform which focused on the implementation of the "Provision" and its "Detailed Rules" to change enterprises' management mechanisms made important progress. Enterprises basically had the right to make management decisions, and the restructuring of the property rights system began to make new strides. Industrial production maintained a certain growth rate. For the year as a whole, the GVIO [Gross Value of Industrial Output] came to 131.61 billion yuan, a 6.2 percent increase. Specifically, the state-owned industries produced 100.99 billion yuan's worth of goods, a 1.1 percent decline; collective owned industries produced 23.34 billion yuan's worth of goods, a 23.5 percent increase. Among the collective industries, the output value of township industries came to 5.28 billion yuan, a 51.1 percent increase, and the output value of village industries was 4.87 billion yuan, a 43.8 percent increase. The output value of town and country cooperative industries came to 240 million yuan, a 38.6 percent increase; the output value of individual-owned town and country industries came to 5.72 billion yuan, a 56.8 percent increase. The "three kinds of wholly or partially foreign-owned enterprises" and industries of other economic components produced 1.56 billion yuan's worth of goods, increasing 1.08 folds. The large- and medium-sized enterprises showed greater vitality; their GVIO was 85.79 billion yuan, a 3.2 percent growth. Among industries at the township and above levels, the output value of heavy industry topped 89.58 billion yuan, a 4.4 percent increase; the output value of light industry topped 31.2 billion yuan, same as the year before. For the year, industrial added-value came to 52.98 billion yuan, a 3.8 percent increase over the previous year. Total output of the major industries is show below:

	1993	Percentage Increase Over 1992
Chemical fibers	120,200 tons	1.7
Fabrics	165,2575 million meters	-21.2
Linen cloth	32,541 million meters	2.3
Wool fabrics	3.5 million meters	-20.7
Sugar	407,500 tons	-38.3
Dairy products	123,100 tons	-15.8
White wine	231,900 tons	-2.3
Beer	873,900 tons	23.1
Rolled tobacco	784,500 cases	1.5
Machine-made paper and cardboard	521,900 tons	1.4
Television	79,100 units	11.0
color TV	75,800 units	8.5
Synthetic detergent	22,000 tons	3.6
plastic goods	94,200	-14.3
One-time energy production (converted to standard tons)	135.57 million tons	-5.5
Raw coal	73,5352 million tons	-13.3
Crude oil	55,9019 tons	0.4
Natural gas	2,228 billion cu m	-2.6
Electricity generation	35,193 billion kwh	0.7
Steel	1,2462 million tons	12.0
Steel material	1,0965 million tons	-0.3
Aluminum material	44,100 tons	-12.2
Lumber	10,9790 million cu m	-6.8
Cement	6,987 million tons	6.6
Plate glass	4,8822 million heavy-weight cases	16.5
Sulfuric acid	74,200 tons	-3.6
Nitric acid	72,800 tons	1.8
Synthetic ammonia	534,400 tons	-8.7
Ethylene	312,000 tons	-3.8
Outer tires	1,8959 million units	-15.4
Power-generating equipment	3,7125 million kw	2.4
Metal-cutting machine tool	3,743 units	0.8
Automobiles	17,100 units	7.5
Small tractors	22,400 units	-23.8

Sales of industrial products improved somewhat in 1993, and the decline in industrial economic efficiency was halted to some extent. For the year, revenue from sales for the province's independently accountable industrial enterprises at the township and above levels came to 114.9 billion yuan, 41.3 percent more than in 1992. Total profit tax, after deducting the huge loss incurred by the Daqing Petroleum Administration resulting from China Petroleum and Natural Gas Corporation's consolidated accounting, was still higher than 1992's. Revenue from sales by local budgeted industrial enterprises came to 32.28 billion yuan, an increase of 35.3 percent; total profit tax came to 1.88 billion yuan, a 19.3 percent increase; 2.48 billion yuan in profit tax was handed to the higher authorities; 36 percent more than before. However, the finished products took up substantial current funds; payments in arrear for goods received were widespread. The overall economic efficiency was still rather poor.

The construction industry continued to thrive. In 1993, in the wake of the fairly sharp increase in fixed asset investments and the increasingly thorough reform of the industry, the construction industry generated 6.98 billion yuan in added-value, a 9.6 percent growth. Economic efficiency of the state-owned construction and building enterprises improved somewhat. The productivity of all workers came to 25,055 yuan, a 31.2 percent increase. Their realized profit was 395 million yuan, a 54.4 percent increase; they turned over 490 million in profit tax, a 8.4 percent increase; they yielded 1,206 yuan in per capita profit tax, a 10.9 percent increase. They completed 4,535 million sq m in total building area, a 24 percent decline from the previous year.

III. Fixed Asset Investments

The increase in fixed asset investments accelerated. In 1993, 32.15 billion yuan of fixed asset investments were completed, a 36.4 percent increase over the previous year. In particular, investments in local project came to 17.764 billion yuan, a 46.8 percent increase. Among all investments, state-owned units accounted for 29,096 billion yuan; a 39.7 percent increase; collective units invested 754 million yuan, a 15.6 percent increase; individual investments accounted for 2.3 billion yuan, a 9.9 percent increase. Due to the central government's stronger macro regulation and control and its effort to sort out irregular projects and other measures, some bad projects were halted or delayed. For the year, the state-owned units had 3,719 capital construction or transformation projects worth over 50,000 yuan, which was 715 projects fewer than in the year before. That number included 2,569 new projects, 719 projects fewer than in 1992. Projects still under construction were worth 88.84 billion yuan, a 17.2 percent increase over the previous year.

Among the state-owned units' investments, capital construction investments came to 14.525 billion yuan, a 44.4 percent increase over the previous year; investments in transformation and upgrading came to 5.131 billion yuan, a 20.0 percent increase; other investments by the whole people came to 5.636 billion yuan, a 25.2 percent increase; commercial building investments came to 3.804 billion yuan, a 90.7 percent increase.

The investment-mix changed somewhat last year. Among the state-owned units' fixed asset investments, investments in the primary industry came to 367 million yuan, and its share of total investment fell from 2.7 percent in the previous year to 1.3 percent; investments in the secondary industry came to 17.185 billion yuan, and its share fell from 63.2 percent to 59.1 percent. Specifically, investments in the energy industry came to 11.7 billion yuan; its share fell from 43.5 percent to 40.2 percent. Investment in the tertiary industry came to 11.544 billion yuan; its share rose from 34.1 percent to 39.7 percent of total investment. Specifically, investments in transportation and post and telecommunications came to 2.445 billion yuan; their share fell from 8.9 percent to 8.4 percent.

Key construction projects made good progress. In 1993, the province had 52 large- and medium-sized on-going capital construction and key construction projects and 48 above-quota transformation projects. Their investments came to 6.114 billion yuan and 814 billion yuan, respectively, which represented increases of 40.2 percent and 49.4 percent. Five large and medium-sized single-item projects and four above-quota transformation projects were completed and put to use. The state-owned units' newly added production capabilities included the following: They extracted 3.77 million tons of natural gas and 600,000 tons of raw coal, fell 70,000 cu meters of timber, installed 200,000 kw of power generating capacity, smelted 131,000 tons of steel, brewed 25,000 tons of beer, and supplied 100,000 tons of tap water per day, and installed 435,000 units of automatic exchange telephone in the cities.

IV. Transportations and Post and Telecommunications

The transportations and post and telecommunications industry grew steadily. In 1993, it generated 5.367 billion yuan in added-value, a 5.7 percent increase over the previous year. But transportations and communications still could not keep up with the economic and social development; railroad transport was still very congested. The table below shows the volumes of shipment by all means of transportation:

	1993	Percentage Increase over 1992
Volume of cargo turnover	84.424 billion tons	0.6
by rail	72.198 billion ton-km	0.7
by highway	5.592 billion ton-km	-6.5
by water	1.613 ton-km	0.2
by air	112 million ton-km	1.3 fold
by pipeline	4.909 billion ton-km	-0.4
Volume of passenger turnover	22.410 billion people-km	5.5
by rail	16.782 billion people-km	7.8
by highway	4.298 billion people-km	-15.5
by water	30 million people-km	-6.3
by air	1.3 billion people-km	1.3 fold

Development in the post and telecommunications industry continued. For the year, the industry generated 1.24 billion yuan in business, a 58.2 percent increase. Specifically, 166.40 million pieces of mail were delivered, a 7.9 percent increase; 640,000 pieces of express and special delivery mail were delivered, a 1.2-fold increase; there were 145.28 million long-distance phone calls, a 1.2-fold increase; there were 171,000 electronic pager subscribers, a 1.1-fold increase; 9.785 million telegraphs were delivered, a 19.9 percent decline; 672.09 million publications were printed, a 1.4 percent decline; 715,800 units of program-controlled telephone exchanges were installed in the cities, a 1.3-fold increase; 206,000 telephones were installed in the cities, doubled last year's; 613,600 households were guaranteed telephones in the cities, a 50.3 percent increase.

V. Business and Prices

Market sales increased steadily. In 1993, the pace of reform in the circulation sector accelerated, promoting the development of the market system. There was ample supply in the consumer goods markets; buying and selling were brisk. For the year, society's total retail sales came to 48.48 billion yuan, a 12.3 percent increase. Specifically, retail sale of consumer goods came to 44.647 billion yuan, a 13.2 percent increase; retail sales of agricultural means of production came to 3.829 billion yuan, a 3.3 percent increase. A breakdown of the increases in the volume of retail sales for economies of different components is as follows: Sales increased 4.8 percent in the state-owned economy; sales in the collective economy fell 2.5 percent; sales in the individual- and privately-run economies rose 39.8 percent; the peasants' retail sale to non-rural residents rose 28.6 percent. The number of country fair markets in the urban and rural areas grew to 1,873, with volume of transaction totaling 11.05 billion yuan, 42.7 percent more than in the previous year. In terms of the volume of sales of various types of consumer goods, in the food category, the sale of fresh eggs grew 30.9 percent; wine, 23.1 percent; and sugar, 3.3 percent. The sales of grains, edible oil, and pork fell by varying degrees. In the clothing category, the sale of silk and satin rose 4.2 percent. Among the durable goods, the sale of tape recorders went up 18.6 percent; cameras, 1.9 percent; all other sales fell somewhat.

Sales in the capital goods market were somewhat flat. In 1993, the province's goods and materials supply and marketing enterprises bought 13.41 billion yuan's worth of capital goods, 16.8 percent more than in the previous year. Their sales came to 13.964 billion yuan, a 12.1 percent increase. As for the stockpile of the major types of goods and materials on hand, except for a 41.3 percent increase in steel materials and a slight increase in machinery and electronics equipment, the stocks of coal, lumber, cement, and automobiles fell rather sharply last year.

Price reform picked up speed and prices rose sharply. On top of the price reform in the previous years, the state continued to decontrol the prices of grain and iron and steel products and some centrally-allocated coal and

readjusted and raised the price of raw timber and the factory-exit price of centrally-allocated cement. It also implemented the system of "converting parity prices to negotiated prices" for some types of crude oil. These measures played a very positive role in smoothing price relations, changing the chronic practice of under-pricing basic goods, and gradually setting up the mechanisms to let the market set prices, but they also caused the overall price level to rise sharply. For the year, the retail price index rose 14.6 percent, 6.1 percentage points more than in the previous year. Specifically, prices rose 14.2 percent in the cities and 17 percent in the rural areas, exceeding the previous year's rates by 5.7 percentage points and 10.1 percentage points, respectively. In the large- and medium-sized cities, the higher prices of grain, water and electricity, gas, school tuition and miscellaneous charges, and service charges had more serious impact, and the residents' cost of living rose sharply.

1993 Price Increases (percentage)

1. Cost of living	14.8
urban areas	16.2
rural areas	13.7
2. Retail Sales	14.6
(a) Consumer goods	13.0
foodstuff	14.6
grain	26.5
clothing	7.4
everyday goods	7.4
arts and entertainment	-0.9
books and magazines	4.1
medicine and healthcare products	12.1
building and decorative materials	26.3
fuel	48.3
(b) Agricultural means of production	24.6
3. Services	30.2
4. Energy, raw material purchase prices	39.6
5. Industrial products factory-exit price	41.3
6. Investment goods	28.0
7. Agricultural and sideline product purchase price	15.9

VI. Foreign-Related Economy and Tourism

In 1993, Heilongjiang further gave play to its border location and its openness to actively escalate its strategy of opening up to the outside world; its foreign-related economy was never busier. The year's foreign import and export were worth \$3.05 billion, a 6.2 percent increase. Specifically, it exported \$1.88 billion's worth of goods, a 2.9 percent increase; it imported \$1.17 billion's worth of goods, a 11.4 percent increase. Its border barter trade was worth \$2.07 billion in total import and export, a 29 percent increase over the previous year's. Of that

amount, \$1.14 billion were exports, a 34.7 percent increase, and the imports were worth \$930 million, a 22.6 percent increase.

Foreign economic and technological cooperation made new breakthroughs. It successfully recruited businesses and attracted investments in Korea, and the Fourth "Har-Qia Meeting" was very satisfactory. In 1993, Heilongjiang signed a series of contracts with 35 foreign nations and regions to utilize foreign capital on 1,717 projects. This represented an increase of 86 percent. The negotiated amount of foreign capital came to \$1.09 billion, nearly doubled that of the previous year's. Actual foreign capital utilization came to \$300 million, a 1.7-fold increase. This included \$230 million in direct foreign investments, a 1.3-fold increase. It marked a year with the highest foreign capital utilization rate since reform and opening up began. In the wake of the constant expansion of the scope of opening up, the number of "three kinds of wholly or partially foreign-owned enterprises" has increased significantly. Up to the end of 1993, the Department of Industries and Commerce has registered 2,900 FFEs, which was a 1.2-fold increase over the previous year's number.

International tourism flourished. In 1993, the province received 116,000 foreign visitors, overseas Chinese, and Hong Kong and Macao and Taiwan compatriots who came to Heilongjiang on sightseeing trips, on tour, to visit relatives, and for other purposes. Tourism generated 75.42 million yuan in foreign exchange certificates, and increase of 2.3 percent.

VII. Finance and Banking

Heilongjiang's financial departments actively expanded their sources of revenues while plugging loopholes and worked hard to complete the "full-platter project." Financial revenues increased steadily. Based on bulletin figures, the year's local revenues came to 10.75 billion yuan, completing 121.8 percent of the annual budget. Based on constant prices, this represented a 17.4 percent increase in revenues. The financial expenditures came to 12.5 billion yuan, 94 percent of the adjusted budget, and based on constant prices, this represented a 10.7 percent increase in total expenditure.

Financial order clearly improve last year. At year-end, the province's banks and other financial institutions had total deposits of 89.79 billion yuan, 13.32 billion yuan more than at the beginning of the year. New deposits increased by 17.4 percent over the previous year's. Loans of all types totaled 126.73 billion yuan, 22.84 billion more than at the beginning of the year. New loans increased 22.0 percent compared to the previous year. The cumulative credit loan balance came to 36.97 billion yuan, 34.7 percent more than the previous year's 27.43 billion yuan. For the year, the banks' cash income was 190.89 billion yuan, 62.17 billion yuan or 48.3 percent more than a year ago; cash outlay came to 204.47 billion yuan, 63.75 billion yuan or 45.3 percent more than a year ago. Net currency input after offsetting revenues

and expenditures was 13.58 billion yuan, a 1.58 billion yuan increase, which was 2.88 billion yuan less than the increase in the previous year; it represented a 13.2 percent increase, which was 46.2 [as published] percentage points below the previous year's rate of increase.

VIII. Science, Education, Culture, Public Health, and Sports

The in-depth reform of the science and technology system promoted the increasingly close integration of science and technology and the economy and the vigorous development of scientific and technological undertakings. In 1993, the province achieved results in 342 assorted scientific and technological projects, 13 of which attained advanced international standards, 92 were pioneers or leaders among its kind nationally, and 194 were considered the province's breakthrough projects. Among various scientific and technological achievements, two received the state's new invention award, three received the state's scientific and technological advancement award, four received the state's Spark Award for Science and Technology. Important scientific and technological achievements that won awards were: Dongnong No. 704 early-ripe, high-quality, disease-resistant, bumper crop, new variety of tomatoes; Model 3006 intermediate-grade universal gear measuring apparatus; angle=12.5x7(M) super-sized, dome-shaped annealing furnace; Suinong No. 8 new variety of soy bean; research into the application of high-frequency pollution prevention techniques to water seepages in oil fields. For the year, 2,733 patent applications were submitted to the state, 17.4 percent more than in the previous year; 1,917 applications were granted, a 1.1-fold increase.

More money was on science and technology. In 1993, the province's scientific research institutions and colleges and universities and large and medium-sized enterprises spent 1.02 billion yuan on science and technologies, a 2 percent increase. This included 180 million yuan spent on research and development, a 5.9 percent increase. The professional and technical contingent continued to grow. In 1993, the province had 1,309 million professional and technical personnel, 1 percent more than a year earlier.

The technologies market further developed. In 1993, the province signed 6,633 contracts on technologies; they were worth 790 million yuan, a 46.3 percent increase over the previous year's. In particular, the scientific research units turned over the results of 823 projects to the industrial enterprises. The technology transfers were worth 110 million yuan.

In 1993, the province had 191 product quality monitoring organs. The province also set up 69 launching pads for the ultrashort-wave weather warning service system.

Various educational undertakings also made new progress. The development of regular higher education picked up speed. The province recruited 1,723 graduate

students, 27.5 percent more than in the previous year; 4,389 full-time graduate students were in attendance, a 12 percent increase. The regular colleges recruited 33,000 undergraduate and professional-degree students, 14.6 percent more than in the previous year; 96,000 full-time students were in attendance, a 12.8 percent increase; 21,000 students graduated, a 7 percent decline. Polytechnic education also developed at a steady pace. The polytechnic schools recruited 34,000 students, 42.9 percent more than the year before; 82,000 full-time students were in attendance, a 17.5 percent increase. There were 123,000 students in the vocational middle schools, a 13.8 percent decline; 109,800 students were enrolled in the technical schools, a 3.8 percent increase. In the regular middle schools, 1.664 million students were in attendance, a 5.6 percent decline. Enrollment of school-age children came to 98.3 percent; 82.8 percent of the elementary school graduates went on to middle school, and 45.3 percent of the junior middle school students went on to the senior middle school. Conditions in the elementary and middle schools improved. There were 1,660 kindergartens, with 605,000 children attending kindergarten, a 1.5 percent increase.

Adult education achieved new results; many types of technical training flourished. In 1993, colleges for adults accepted 33,000 undergraduates and professional-degree students, a 18.7 percent increase over the previous year; 84,000 full-time students were enrolled, a 6.3 percent increase. Adult polytechnic schools accepted 34,000 students, 42.9 percent more than in the previous years. For the year, 83,000 people learned to read.

Cultural undertakings continued to flourish. In 1993, the province had 94 artistic and performing groups; it had 1,430 mass art galleries and cultural centers, 96 libraries, 23 museums, 125 archives, 70 broadcast stations, 45 intermediate- and short-wave broadcast and transmission stations, 30 TV stations, 918 TV broadcast and transmission stations, and 7,012 hours of programming. For the year, 31 TV shows were produced, six of which won awards. There were 12 original radio broadcast programs, six of which won awards. At year-end, there were 4,432 assorted movie units that put on 304,000 shows. For the year, 715 million copies of newspaper, 66.27 million copies of magazines, and 124 million books were printed.

Medical undertaking developed steadily, and public health conditions further improved. At the end of 1993, the province had 7,702 hospitals, convalescence homes, clinics, and other public health organizations. They had 127,900 beds, 0.6 percent more than in the previous year. There were 179,600 public health professionals and technicians, including 735,000 doctors (54,400 were doctors of Western or Chinese medicine), and 50,900 nurses and therapists.

The province achieved outstanding results in the area of sports. For the year, it won 84 gold, 90.5 silver, and 94.75 bronze medals in various large domestic and international competitions. Heilongjiang's athletes

broke four world records, eight Asian records, and 12 national records. For the year, there were 3,600 above-county-level sports meets in which 2 million people participated. Some 3.3 million people have met "state physical fitness standards."

IX. Population and the Living Conditions

The rapid population increase was put under control. Based on a sample survey of 1993's population change in the province, the birth rate of 15.9 per thousand, a 0.035 percentage point decline; the death rate was 5.52 per thousand, a 0.06 percentage point decline. Because the death rate declined more than the birth rate, the natural rate of population increase was 10.38 per thousand, 0.045 percentage point higher than in 1992. Based on these figures, the province's population in 1993 was 36.40 million, 320,000 more than at the end of 1992, a 0.89 percent increase.

In 1993, the province took care of 214,000 unemployed workers in the cities and towns. At year-end, 8.803 million were employed in the province, same as in the previous year. This included 1.14 million working under the labor contract system in the state-owned units, an increase of 42,000 workers; they accounted for 17.8 percent of the total number of workers, up from 17.1 percent. The total wage bill for the year came to 21.73 billion yuan, an increase of 10.3 percent. The workers' average money wage was 2,560 yuan, an increase of 11.5 percent, and after factoring in the higher prices, it represented a 4 percent decline. However, nonwage income increased rather significantly. A sample survey of households in the cities and towns showed that the people's average regular income was 1,745.5 yuan, 22.2 percent more than in the previous year, and after factoring in the higher prices, the actual increase was 5.2 percent.

On top of the significant increase in the previous year, the peasants' per capita income surpassed the 1,000 yuan mark in 1993. A sample survey of the rural households showed that the peasants' per capita income was 1,028.4 yuan, 79.2 yuan more than in the previous year, which was a 8.3 percent increase, and after factoring in the higher prices, the actual increase was 2.1 percent.

The urban and rural population's savings increased fairly substantially. At the end of 1993, their savings balance topped 58.27 billion yuan, 10.68 billion yuan more than in the previous year. Newly-added savings grew by 22.6 percent. Specifically, the urban population's savings increased 9.65 billion yuan, or 22.9 percent; rural savings increased 1.04 billion yuan, or 20.9 percent. The people were more aware of financial investments. Purchases of stocks and bonds and other negotiable securities increased significantly.

The urban and rural living conditions further improved. In 1993, the state spent 5.76 billion yuan on housing for workers. It represented a 71.4 percent increase in spending. They completed 7.768 million sq meters of housing, which was a 35.3 percent increase.

The urban residents' per capita living space was 6.4 sq meters, 0.2 sq meters more than in the previous year. The rural population's per capita living space was 14.53 sq meters, a 0.11 sq meter increase.

Social welfare undertakings continued to develop. In 1993, society took care of 42,000 orphaned, aged, disabled, and the young; 41,600 were actually taken care of by the towns and townships. There were 1,130 collective-run retirement homes; they accommodated 23,500 people. Specifically, 1,112 of the retirement homes were run by the towns and townships, and they accommodated 23,400 people. There were 27 social welfare institutions, children's welfare institutions, and mental hospitals ran by the civic administration departments, and they took care of 6,417 people.

The insurance business underwent further development. In 1993, the province took in 215.1 billion yuan in premium for all kinds of insurances. The insurance business's total revenue came to 1.36 billion yuan, 14.3 percent more than in the previous years. The insurance business's total outlay came to 835 million yuan, a 57.7 percent increase. The province's insurance business handled 1.835 million claims and paid out 559 million yuan in compensation.

Environmental protection undertakings made good progress. In 1993, the province's environmental protection system had 115 monitoring stations and 3 state-class nature preservation zones. For the year, it completed 174 environmental clean-up projects and invested a total of 41 million yuan. Three hundred and thirty-four smoke and dust control zones were set up in 10 cities; they covered an area of 572 sq km. One hundred ninety-five noise reduction zones were set up in 10 cities; they covered an area of 287 sq km.

Note

1. Figures in this bulletin are preliminary.
2. The GDP and various industrial added-values and total output figures are based on 1993 prices; the rates of increase are based on constant prices.
3. The GDP and various industrial added-values mainly include workers' wages, profit tax, and depreciation and do not include energy, raw material, and other interim consumption values.

Henan Governor on Economic Development

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[Article by staff reporters Zhang Bosen (1728 2672 2773) and Gu Xiaoqian (7357 1321 0051) and New China News Agency reporter Wen Youcheng (5113 2589 2052): "Convert Resource Superiority Into Economic Superiority To Accelerate the Pace of Henan Development: An Interview With a Delegate, Henan Governor Ma Zhongchen"]

[Text] Premier Li Peng stated in the "Government Work Report": "This year's economic work should deepen reform, expand opening, strengthen and improve macroscopic adjustment and control, vigorously readjust the economic mix, promote technological progress, enthusiastically develop markets, improve economic efficiency, and control inflation to ensure the lasting, rapid, and healthy development of the national economy." What will Henan do? When interviewed by this reporter, the delegate, Henan Governor Ma Zhongchen [7456 1813 5256] stated, "We must speed up Henan's development by converting our resource advantages into economic superiority."

Delegate Ma Zhongchen said that Henan was located in the inner platform, so it is a major province for resources. There are 107 types of mineral products found in Henan, and among the verified mineral products, 49 are listed among the top ten nationally, including 12 types listed among the top three. The three energy mineral products of coal, oil, and natural gas, the four metal mineral products of aluminium, gold, molybdenum, and silver, and such non-metal mineral products as refractory clay, cement stone, salt, trona, solvent limestone, pearlite, and orchid asbestos are especially rich. The area is also very rich in arable land and output of agricultural products and by-products, with winter wheat, beans, cotton, and tobacco, as well as various fruits, and reserve quantities of large livestock all listed first in the nation. Transportation extends in all directions, the highways cover the province as densely as a spider's web, and air flights connect Henan with more than 20 Chinese cities, Hong Kong and Japan. The North-South and East-West central coaxial cables intersect at Zhengzhou. Seventeen prefectures or cities and 83 counties (cities) have operational domestic direct dial telephones, with a provincial total of over 500,000 automatic exchange phones. Henan is first nationally in underground cultural relics, second in above-ground relics, and our museum collections rank third in the nation. Since reform and opening, we have made our base upon developing our resource superiority, and have made great progress economically. In 1993, Henan's GDP was up to 158 billion yuan, a 15.7 percent increase over 1992, and 9.7 times that of 1978.

However, Delegate Ma Zhongchen pointed out that "Due to the affects of the economic division under the traditional economic system and limitations on capital and technology, Henan has not significantly altered its status of being a producing and exporting base for agricultural products, by-products, energy resource, raw materials and major primary level products, so we have not maximized our resource advantage, and our resource efficiency is not high enough. Viewed from the opposite angle, it demonstrates that the Henan economy has great potential for development. Therefore, the key to accelerating Henan's economic development lies in further releasing the huge potential its of resource advantages, doing our best to convert this resource advantage into economic advantage." Ma Zhongchen said firmly, with

emphasis in his voice, "We have therefore laid out the general idea that developing Henan's economy in the future lies in accelerating the process of national economic marketization, implementing a comprehensive strategy for developing industry and agriculture. We must use the cities to promote the countryside, completely opening up and developing from a high starting point, facing toward both the overseas and domestic markets, going the way of deep processing with value adding driven by the resource advantages. Convert our resource advantages into economic advantage."

"But, how do you convert resource advantages into economic advantage?" the correspondent asked.

"First of all, we must strengthen the market economic concept, try to realize the four changes, and do a good job on three key points' of developing resource advantages." Delegate Ma Zhongchen explained that, "The so-called four changes' are, one, change from fixing projects according to resources to fixing them by market requirements; two, change from driving processing value adding by exploiting resource advantages into driving exploiting resource advantages by deep processing value adding; three, change from mainly facing inward for developing resources into developing resources facing the overseas and the domestic market, while giving special attention right now to developing export oriented industry, enterprises and products; four, change from developing and using solely local resources into a base of using both international and domestic, especially taking full advantage of foreign capital, technology, expertise and information resources, to realize bilateral compensation through the province's advantages in land, agricultural products and by-products, mineral products and labor force resources.

"Principally, the 'three key points' are:

(1) Vigorously develop the deep processing of advantageous mineral resources, really working on five industrial systems: coal-electricity, coal chemicals, petrochemicals, aluminium and construction materials.

1. Focus on coal-electricity, vigorously developing deep processing for primary energy. Henan not only has rich coal resources, we are also close to two coal bases in southeastern Shanxi and Shaanxi, which is very favorable for development of the Kengkou and Lukou power stations. By the end of the century, we will build Henan into an important coal-electricity base with a 12 to 15 million KW generator capacity in the united national electricity network. We will try to add 3.5 million KW of generator capacity during the Eighth Five Year Plan, and will try to add 6.5 million KW during the Ninth Five Year Plan.

2. Develop the coal chemicals industry on the base of advantageous coal resources. Led by nylon 66 salt, based on coal tar processing, we are developing synthetic materials and fine chemical industry products while developing basic chemical raw materials. There are projects which have been set by the state, such as the

Pingdingshan nylon 66 salt project, Pingdingshan coal tar project, Yima gas chemicals project, etc.

3. Make oil, natural gas-fuel, oil-chemical fibre and plastics a deep processing chain to develop the petrochemical industry. Relying on the oil and gas resources of the Zhongyuan Oil Field, Henan Oil Field and the five million tons of raw oil processing at the Luoyang Oil Refinery, we will gradually establish a Luoyang petrochemical industrial base focused on oil refining, chemical fibre and plastic production, a Puyang petrochemical industrial base focused on production of chemical fertilizer and ethylene, and a Nanyang petrochemical industrial base focused on high-density oil treatment and natural soda.

4. Make aluminium oxide-fine aluminium-aluminium materials-aluminium products an aluminium deep processing chain. As one of 20 projects being promoted by Henan Province, the Great Wall Aluminium Industry Corporation has an annual aluminium oxide production output of 1.2 million tons, aluminium electrolysis of 500,000 tons and 300,000 tons of aluminium materials. Among these, the first stage of a 200,000 ton aluminium oxide project at the Zhongzhou Aluminium Plant is now being completed. After completion, this project will be the biggest aluminium industry base in China.

5. Led by cement, glass, and advanced refractory materials in the construction materials industry, increase the pace of deep processing products by means of developing enterprises on an appropriate scale. Our hope is to establish industrial sectors which will be national leaders and correspond to our resource advantages.

2) Do a good job of adding value by deep processing in the sphere of "agriculture."

Gross output depends on the depth to which agricultural products are processed, that is, the final form of the product. Therefore, agricultural development in Henan will depend on how deep is the processing of agricultural products. We regard the deep processing of agricultural products and by-products as a breakthrough point for vigorously developing Henan's economy, and around "agriculture" will do a good job in the light textile industry to realize good circulation of promoting industry through agriculture and building agriculture through industry; focus on doing well the deep processing of nine big series and 18 varieties of products, such as cotton-cotton processing-textiles-clothes, wheat-flour-fine foods, tobacco leaves-double curing-cigarettes, papermaking, winemaking, peanuts, corn, fruits and vegetables, comprehensive poultry and livestock processing, etc. We will gradually establish an industrial system for the deep processing and fine processing of agricultural products and by-products on a suitable scale and certain technological level. In this part of the work, we have attained certain achievements: Henan's monosodium glutamate and ham production are on a certain scale, with a very high sales rate in the domestic market. We have chosen to give priority in development to

agriculture and its by-products, with food products, and to the textile industry as a leading industry, as well as bringing along other light industrial development such as papermaking, leather, medicine, etc.

(3) Exploit our geographical superiority and develop our cultural resources.

At present, we are making rapid progress in key infrastructural projects, with periodic achievements in such areas as transportation, telecommunications and tourism. Among 10 tourism projects for exploiting cultural resources, there is the original site of the "foolish old man who moved the mountain" in Jiyuan, Kuilichen in Tangyin, the "little Yellow River" channel excavation in the Yellow River Daguan, the reconstruction project of digging a channel according to the "Qingming Shanghe Picture" in Kaifeng. These are in general completed and opened to tourists, while the construction of other projects is in full swing. Construction of the Henan Provincial Museum, which will exhibit the cream of Henan's antiquities, will be completed and the museum operational this year.

In order to bring about conversion from resource superiority to economic superiority, we must also adopt some practical measures, giving serious attention to implementation. In this regard, we plan to focus on giving force to the following five aspects:

One: add force to deepen reform, insisting on maintaining the dominance of public ownership, vigorously developing the various economic component parts. Of Henan's more than 149.3 billion yuan gross industrial output value at the town level and above, individual industry and "three types of capital" industry in urban and suburban areas is less than 20 percent, so there is great potential here. According to what is required to develop the socialist market economy, we must persist in the principle of developing whatever suitable economic component sector that fits, bringing the enthusiasm of each sector into full play, pushing the provincial economy to a new level.

Two: add force to improving the investment environment, expanding our opening toward the outside, with wide use of foreign capital, technology and human resources. At present, Henan is fully supporting construction of 10 major infrastructural projects, including Zhengzhou's new airport and a group of freeways. We are trying our best through environmental beautification and excellent service to provide the most favorable conditions for attracting foreign businessmen to invest in Henan in various forms, based on our resource superiority, and vigorously developing "three types of capital" enterprises. We are trying to exploit more than \$1 billion in foreign capital in each of the last two years of the Eighth Five Year Plan.

Three: add force to pushing scientific and technical progress, improving the technological content of the domestic economy a great deal. Liberate scientific and technological workers, accelerating the conversion of

high and new technological achievements to productive force. Meanwhile, make a major effort to replace technology in industrial enterprises. During the final two years of the Eighth and Ninth Five Year Plans, we plan to choose about 50 enterprises (groups) whose industrial sales productive output value are expected soon to be over 500 million yuan, to conduct a name brand strategy, concentrating capital to support their technology replacement, extend their products chain, cultivate leading edge products, establish economic scale, and produce economic giants. By the year 2000, we hope to achieve an average annual new increase in industrial marketing production output value of over 2 billion yuan, with taxes on profits of more than 200,000 yuan in these enterprises. It is very possible that key projects in areas which are capital and technology intensive, such as petroleum, chemicals, deep processing of nonferrous metals, electricity, etc., will start construction with designs which select internationally advanced technical equipment from the late eighties and the nineties.

Four: add force in amassing construction capital through multiple channels and forms, with a stress on key construction projects. In addition to vigorously exploiting foreign capital, vigorously develop a joint-stock system, taking fullest advantage of a variety of financial measures, such as stocks, bonds, etc., under the supervision of the state's policies. Take advantage of society's extra capital in multiple areas, at multiple levels, via multiple channels, in multiple forms and in multiple ways, accelerating construction of 20 development projects throughout the province, and increasing the staying power of economic development throughout the province.

Five: add force in bilateral economic coordination, welcoming coastal provinces to invest and develop resources in Henan. With the rapid development of the coastal economy, there is a growing demand by basic products for energy and raw materials, an area in which Henan has an exclusive superiority. We have instituted bilateral favorable and beneficial policies, and warmly welcome coastal and economic developed areas to co-exploit our province's resources, promoting co-economic prosperity.

FINANCE, BANKING

Specialized Bank Reform Studied

94CE0448A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 2, 20 Feb 94 pp 22-28

[Article by Xie Ping (6200 1627): Chinese People's Bank Policy Study Office: "On Reform of the Specialized Banks." Editor's Note: The author delivered this report as a paper at the "International Workshop on Chinese Banking Reform and Development" in Shenzhen during November 1993. It has been abridged for publication in this magazine]

[Text] 1. Basic Character of National Specialized Banks and Reasons Why Their Reform Is Lagging

Greater emphasis on finance and banking and reform of finance and banking, characterized by a diversification of financial institutions, the use of new financial instruments, and the development of financial markets, has been going on in China for 15 years (Xieping et al, 1992). However, these institutional innovations have taken place and have been promoted largely outside the specialized bank system. The organizational structure and the operating mechanisms of national specialized banks, which are the main financial business entities in China, have not been greatly reformed. In fact, the lag in their reform underlies the lag in all of China's finance and banking reform. Before analyzing the reasons for the lag in reform of national specialized banks, it is necessary to summarize the basic character of the national specialized banks (because, it is these characteristics that play a very great role in determining the internal structure and behavior of China's specialized banks): 1) Regionalized structure. From top to bottom, level by level, the Chinese specialized banks have set up branch banks based on administrative divisions (provinces, cities, prefectures, and counties). Consequently, the specialized banks are superficially individual banks in a unified national bank system when they are, in fact, several thousand relatively independent local banks. 2) Internal administrative ranking system. For historical reasons, the national specialized banks have had the character of government organs since the date of their founding. Thus, the banks have fashioned an internal "official standard" stimulus mechanism in which the pursuit of promotion is the ultimate concentrated expression of the individual effectiveness of bank staff members and workers. 3) Mixing of policy-related business with business-related business. 4) Government plan-controlled credit business. Because of the lingering influence of the planned economy model, the government regards the specialized banks as credit middlemen for plan distributions, and as intermediary institutions for payments and settlements, whose business is solely to ensure that planned financial distribution activities are performed. They have become an operating mechanism whereby production proceeds according to plan, and finance is subordinate to production plans. In a market economy environment, however, the specialized banks do market style business outside credit plans insofar as possible with a view to making a profit. In the absence of restraining laws and regulations, this kind of two-track system of doing business can easily lead to disarray in the financial trading order. 5) The industrial division of labor pattern among the four large specialized banks. At the working level, this industrial division of labor creates a situation in which a firm borrows, opens an account, and makes settlements only through a single bank, thereby producing a pattern in which a bank handles a firm's funds exclusively. The bank becomes a firm's largest creditor, thereby making it easy for the firm to shift risks to the bank. 6) Unified state control over income and expenditures as part of financial management. Evaluation of the specialized

banks' business effectiveness and individual earnings have never been linked to profits; instead a semi-administrative agency-style unified state control over income and expenditures has been practiced in financial management. Some profit retention pilot projects were tried with some specialized banks (such as the Chinese Bank of Agriculture between 1989 - 1991), but without success.

There are two main reasons why it is so difficult to move ahead with reforms to convert the specialized banks into commercial banks as follows: First are internal reasons, i.e., the reasons created by the specialized bank's internal microstructure. Second are external reasons. Quite a few articles published in China have contained a fairly large number of analyses of the external reasons (Zhou Ziyuan [0719 5261 6678], 1993; Xu Jian [6079 1696], 1992), but analysis of the internal reasons have been few. Many articles have said a great deal about reforms that the specialized banks should make, and they have even gone so far as to provide quite a few ideas about the reform steps that should be taken (Xu Maosen [5171 5399 2773], 1993). However, just why reform of the specialized banks has lagged during the past 15 years has never been made clear. All these analyses imply one idea, namely, that the government has not really pushed reform of the country's specialized banks. If the government really wanted reform, it could move ahead with reform measures unimpeded. Indeed, many of the reforms that China has conducted during the past 15 years have been "compulsory institutional reforms" that the government has pushed. (Lin Yifu [2651 3015 1133], 1989) But why does the government fail to "apply pressure" only on the matter of national specialized bank reform. In China, reform of the national specialized banks has a bearing on many interest groups. To reform or not to reform, how much reform, and reform toward what goal depend on whether those that approve, support, and push these reforms are in an advantageous position to muster relatively more strength against opposing interest groups. (Hu Ruyin [5170 3067 6892]. National specialized bank reform is more difficult to promote than enterprise reform, foreign trade reform, price reform, agricultural reform and taxation reform because these specialized banks play a special role in China's modern economic and political life. They have a bearing on interests in many quarters. Since this reform would lead to a substantial alteration of interest patterns, possibly it would be very risky.

1. Monopoly Position. The monopoly position of the specialized banks is a factor in the lag of reform in two ways: First, monopoly interests have led to insufficient motivation for internal reform. Now that financial markets have entered a situation of strong barriers, and a shortage of money, coupled with vigorous demand and a fairly tremendous gap between state-controlled interest rates and market equilibrium interest rates, the monopoly interests of the specialized banks are enormous. Under these circumstances, for the banks, keeping things the way they are is preferable to reform that would

damage their monopoly position. Conversely, some reforms and policies that might benefit the specialized banks' monopoly position (such as central bank delegation of authority, elimination of credit controls, permitting the specialized banks to provide full service business, increasing cost deductions, increasing bad debt reserves, etc), the specialized banks do their utmost to promote. Thus, the course of finance and banking reform in China for the past 15 years has been weird. On the one hand, progress has been substantial in reforming the central bank's monetary policy and the development of financial markets while, on the other hand, the specialized banks' monopoly position has not changed in the course of reform. Meanwhile, the efficiency of these banks has declined, their services have not improved, their return on assets rate has fallen, and the percentage of their bad debts and overdue loans has risen. Second is the outward resistance created by oligopolistic interest relationships. By so-called outward resistance is meant the united resistance of the several specialized banks to external reform pressures. In 1986, 1988, and 1991, several efforts were made to implement substantive reform plans for the specialized banks, but none of them succeeded. This situation shows that since the several specialized banks monopolize the finance and banking business, a tacit agreement was reached among those sharing a common interest in certain quarters to block or weaken the central bank's reform plans or monetary policy. In fact, any major decision that the central bank makes must obtain the "approval" of the specialized banks before it can be put into effect. Sometimes "dialogue and consultation" (such as joint conferences and joint reports to the State Council) must be employed to solve problems. Unavoidably, the central bank must make "necessary compromises."

2. The government's related interests and hesitation. The government (including the central bank) has never been resolute on the specialized banks reform issue. The reasons for the insufficient external (government) reform motivation are as follows: a) fear that central government's revenues might be impaired. The business taxes and profits that China's specialized banks pay have always been a main source of revenues for the central government treasury amounting to about one-sixth of central government revenues. In view of the relatively great decline in the percentage of central government's fiscal revenues since 1987, this revenue has assumed greater importance. Consequently, when a given reform may impair the central bank's earnings, the central government usually finds it hard to be firm. b) worries about carrying out the government's economic policy intentions. For many years, the government has declared that the national specialized banks also have "macroeconomic regulation and control functions." Government direct participation in specialized bank business decisions has never changed. This has three aspects: One is that the specialized banks are responsible for all policy-related loans for government-designated purposes; second, a substantial portion of commercial loans flow toward the sectors or enterprises that the government

favors, particularly loans to state-owned enterprises (at interest rates that are lower than the market equilibrium interest rate), which is actually a form of subsidy; and third, the total amount of specialized bank credit has a very great effect on total social demand. The prevailing system helps the government regulate and control total demand by controlling total credit. Therefore, when the existing specialized banking system fits in with the macroeconomic control system in certain regards, there can be no demand for "compulsory reform" for the time being. c) Certain technical factors. In the course of many years of operation, the specialized banks have constructed a huge and complicated internal system. Were this to be fundamentally reformed, government would not be able to deal completely with certainly technical matters such as how to split up institutions, placement and transfer of personnel, changes in the settlement system, rescheduling taxes, accounting and the division of accounts for policy-related business and commercial business, rescheduling creditors and debtors, relations with local governments, etc. Worries about these matter may magnify the risks of specialized bank reform with the result that it has never been possible to make a decision.

3. Other External Factors. The central government, the central bank, and the specialized banks themselves are the main decision makers in drawing up specialized bank reform plans. They consult with each other, and they haggle back and forth. However, in this decision-making process, certain external factors, or one might say "external conditions for reform" frequently become the main topic of discussion, or may even become the main factors affecting decisions. These factors include mostly the following: Since China has not yet set up a modern enterprise system, no strong restraints apply to enterprises' credit and liabilities. This is a decisive factor influencing the quality of specialized bank assets. No markets have yet been set up for the substantial flow of the key elements of production; thus, no profit equalizing mechanism has been formed. The entire interest rate system remains controlled; thus, interest rates cannot truly reflect the money supply and demand situation and money's opportunity costs. The finance and banking business' taxation system and fiscal system is unfair. They frequently have a fairly pronounced administrative interference coloration, etc. This situation has produced two points of view: One point of view maintains that it is necessary to wait until the above external conditions have been reformed to a certain extent before reform of the specialized banks can make any substantive headway. Only then can some reform measures be inaugurated. The other point of view maintains that China's current economic environment is not an obstacle to specialized bank reform. Both the specialized banks and the aforementioned external factors require substantial reform at the same time, but reform of the specialized banks happens to be lagging now. The author agrees with the second point of view. Actually, emphasizing the full necessity for external conditions for

specialized bank reform is a "chicken or egg" argument for which there can be no solution.

4. **The Non-Support Attitude of Local Governments.** Under current conditions in China, local governments (particularly provincial governments) have no decision-making authority on the specialized bank reform issue. However, local governments do have substantial power to direct the credit business of specialized bank branches. "When the treasury has no money, go to the banks," is the usual rule. In the eyes of many local administrative officials, the local branches of specialized banks are a "second treasury." Therefore, the funds of the nationwide specialized banks are cut up by jurisdiction; credit is localized; and how credit is used is subject to local government interference. The main office not only is unable to move money around, but its branch cadres efforts to allocate and apportion funds frequently meet with refusal by or "a plea" from the local government. This is particularly the case regarding the credit business of specialized bank local branches and sub-branches, and matters closely related to administrative officers' "pet projects," and "career achievements." Frequently local funds shortfalls can be made up by having a specialized bank branch or sub-branch dun the central bank or the main office of a particular specialized bank. Therefore, local governments are largely satisfied with the present specialized bank pattern and its operating mechanism. They maintain an attitude of nonsupport for any reform plan that might change the present situation. This nonsupport attitude makes itself felt on ultimate decisions via various channels.

5. **Enterprises Demand for Specialized Bank Reform Not Sufficient.** As far as state-owned enterprises are concerned (particularly for large- and medium-sized enterprises on which decisions have a substantial effect), the limitations on specialized bank credit are very weak. For them, the specialized banks may be termed creditors, but they are actually suppliers of funds. The existing specialized bank set-up benefits state-owned enterprises. Consequently, the demand of state-owned enterprises for reform of the specialized bank is by no means urgent. On the contrary, were the specialized banks to become real commercial banks, only those able to repay would be issued credit. The poor would be scorned and the rich favored. The toughening of credit restraints poses a threat to state-owned enterprises. For numerous state-owned enterprises that depend on credit to carry on, in particular, reform of the specialized banks would confront them with the threat of bankruptcy. Large numbers of nonstate-owned enterprises are very dissatisfied with the specialized banks system because their possibility of obtaining credit from these banks is very small. Therefore, the urgency of their demand for reform is strong. However, nonstate-owned enterprises have no influence in the overall decision-making structure.

Summarization of the foregoing shows that from the standpoint of four main interest groups—the specialized banks themselves, the central government, local governments, and enterprises—external motivation and

external demand for specialized bank reform is not great. This is another way of saying that the existing specialized bank system has had a "positive benefit" for the above four major interest groups for a certain period, and this is also the reason that reform has lagged. The fact is that this "positive benefit" stems from the tremendous amount of credit that the specialized banks grant every year, and this increase comes from the central banks credit (basic money) increase. It also comes from an increase in the cash balance that society needs in the process of monetarizing the economy. It is income derived from the issuance of money. During the next several years, the monetarization of China's economy will slow; thus, the surplus income that comes from currency issuance will decline. On the other hand, the specialized bank's loans in being will not turn over; the quality of assets will decline; and a latent crisis may appear.

2. Challenges that the Specialized Banking System Faces

The special bank system has been in operation in China for more than a decade. As market reforms intensify, the shortcomings of this system will become increasingly apparent. Therefore, some analysis of the lambasting and challenges that the specialized banks have borne in recent years will help clarify the objective model for specialized bank reform.

1. **Development of Specialized Bank Foreign Financial Institutions.** Since the advent of reform, very great advances have been made in the diversification of China's finance and banking institutions. The financial reform path formed outside of these banking institutions has now entered a new stage. Eight small commercial banks, foremost of which is the Bank of Communications, (including the Zhongxin Industrial Bank, the Guangda Bank, the Shenzhen Development Bank, the Guangdong Development Bank, the Fujian Enterprise Bank, the Shekou Merchants Bank, the Huaxia Bank, and the Pudong Development Bank) have been in business for only a short time. Nevertheless, all of their businesses have developed very rapidly. As of the end of June 1993, these banks had loan balances totaling 97 billion yuan, or 4.53 percent of the 2.143 trillion yuan loan balance of the four large specialized banks for the same period. Their savings balance was 6.9 percent that of the four specialized banks. In addition, there are 380 trust investment corporations, 3,800 urban credit cooperatives, and 94 foreign-owned or joint venture banks (or operating financial institutions). The financial institutions, other than the four large specialized banks, have begun to compete in savings, loans, settlements, and foreign exchange business with the specialized banks. In addition, the flexibility of their operations, their tight internal management, their high assets quality, and their superior services have attracted quite a few talented people and business from the specialized banks. In places such as Shenzhen and Guangdong, in particular, the market share of the specialized banks had declined to around 50 percent. The administrative institution character, the cumbersome nature, the ossified management,

and the not very high efficiency of the specialized banks puts them in an increasingly unfavorable competitive position.

2. The International Onslaught. With the development and widespread application of science and technology in every country of the world in recent years, and with the tremendous increase in the socialization and even the degree of internationalization of production and markets, financial reforms have been conducted on a global scale. In particular, the business and the organization of commercial banks have undergone profound and tremendous changes. These changes have entered China through international exchanges, and they stand in strong contrast to China's specialized bank system. The "model effect" that the development of banking outside China has engendered in China has stimulated pressures for reform in China. These pressures come from both within the specialized banks themselves and from outside. One onslaught that is particularly apparent is the outflow from the specialized banks of many expert cadres to foreign banks and other financial institutions. This has had a very great impact on the development of business in the specialized banks. The ossified system, technological backwardness, and the loss of skilled personnel poses an even greater hidden danger for the future. Such a lambasting also means that after China "re-enters GATT," when more foreign banks will enter China and may handle renminbi business, unless the specialized banks carry out basic reforms, they will be at a future competitive disadvantage.

3. Challenges From the Development of China's Market Economy. Since institution of a market economy, Chinese industrial and commercial enterprises have gradually shifted over to the market economy. Market economy principles have been incorporated into enterprises operating behavior. Enterprises demand for funds and financial services are also expressed in market law terms. Given this situation, the specialized banks, which mostly follow the former plan model, do not fit in with the market style enterprise system. For example, the operating plans that enterprises have drawn up to meet market demand do not mesh with the specialized banks' credit plans. When enterprises need money, no credit is available, but when they do not it, the banks urge credit on them. Non state-owned enterprises that are making good returns cannot get loans, but money losing state-owned enterprises have plenty of credit available. Thus, these state-owned enterprises may re-lend money at higher interest, or they may not repay the loans or they may charge off the interest as a cost. When market interest rates are high, grassroots branches of the specialized banks use their money to make call-loans rather than for regular credit. By issuing call-loans, they can figure interest at the market rate [rather than at the government-set interest rate], and lend it and re-lend it making a commission on each transaction. The rise of real estate markets also lured some grassroots level branches of the specialized banks to invest. Risks were great and they lost money. By the end of 1992, the

country's four large specialized banks had a net more than 100 billion yuan in short-term loans outside the system. This created havoc in the domestic financial order, the deepseated cause of which is the failure of the prevailing specialized bank system to fit in with development of a market economy.

4. Challenges of Finance and Banking Innovations. Finance and banking instrument innovations made in China between 1985 and 1990 may be divided into seven categories: trust savings, commission savings, negotiable large amount certificates of deposit, national bonds, enterprise bonds, financial debentures, and stock. As of the end of 1991, these seven types of financial instruments accounted for 13 percent of total assets held by the nonfinance and banking sector and individuals. Moreover, all of the above financial instruments, with the exception of the financial debentures, were used by the specialized banks. Since the last half of 1991, China has faced another surge of financial innovations. In addition to a sharp increase in the amount of stock shares and enterprise bonds issued, new financial instruments include: shares issued to staff members and workers in enterprises, corporate shares, informal fund raising by enterprises and local governments, mutual funds, beneficiary bonds, stock warrants, and convertible bonds. Financial innovations have sparked the development of direct financing and a large scale outflow of funds in many directions. In 1992, the country's negotiable securities markets issued 128 billion yuan worth of negotiable securities of all kinds, including 41 billion yuan worth of national bonds, 12.7 billion yuan worth of National Planning Commission National Investment Corporation bonds, 37.9 billion yuan worth of enterprise bonds, 22.5 billion worth of financial debentures, and 11 billion yuan worth of stock. If shares issued within enterprises, the raising of funds outside plan, and such measures for which no statistics exist are added in, the People's Bank head office estimates the total at 250 billion yuan. This is 76 percent of the 329 billion yuan additional loans issued by the four specialized banks. These financial innovations and the outflow of funds through many different channels are actually a "backlash" against the existing specialized banking system. Since indirect financing in China has long been primarily through the specialized banks, unless the specialized banks conduct fundamental reform, continuation of this intermediation may threaten the effective operation of the specialized bank system.

5. Threats to the Macroeconomic Regulation and Control of Finance and Banking. For many years, the government's macroeconomic monetary policy acted on total social demand through the specialized banks. The specialized banks have been the microeconomic foundation for monetary policy. However, the situation during the past several years shows the actions of the specialized banks to be at odds with the market economy. Because of the effect of all sorts of external and internal factors, the loans that the specialized banks have issued have not flowed into high output sectors. The result has been a

large number of dead loans. In addition, the specialized banks have used their monopoly position to "exert reverse pressure" on the central banks large increase in the basic money supply through devices such as "ensuring payment," "guaranteeing large and medium size enterprises needs for working capital," "backing the building of key construction projects," and no "issuance of IOUs." Since 1992, in particular, the specialized banks have acted as a "funnel" for central bank basic currency through the use of short-term loans, joint investment with enterprises, and subsidiary corporation switch investments. As a result, money is added to the basic supply but never comes back. This can easily lead to credit inflation. Clearly, if the specialized banks themselves are not commercial banks that are self-limiting and bear risks themselves, this will hurt implementation of macroeconomic monetary policy in a market economy unless administrative measures such as the "high official mechanism" is used (General Planning Research Team, 1992). Faced with the current specialized bank system, market-oriented monetary policies will become increasingly ineffective. This threat is also one of the motivations for government and central bank determination to reform the specialized banks.

3. Object Model for Specialized Bank Reform

The goal of national specialized bank reform is presently clear. It is to make them into truly commercial banks. This holds three different levels of meaning: The first is the need to regard commercial banks as an industry, putting reform of the specialized banks into the context of industrial reform and not looking at it solely from the angle of individual banks. Second, it means that the four specialized banks will not necessarily be converted into four commercial banks. They might be converted into even more commercial banks. This would help shape a competitive environment. Third, the ultimate goal of this reform is to improve banking business returns and to promote the allocation of financial resources through the market. It is not reform for reform's sake.

Furthermore, since the specialized banks are a distinctive economic organization in China that are large in size and strongly monopolistic, the measures taken to reform them should be different. First of all, reliance on "gradualist" methods generated outside the system are not likely to be effective. The time required will be protracted; thus, competitive markets will not be formed for a long time. Second, unlike the reform of the enterprise system, since there are only four specialized banks, reform of the specialized bank system becomes reform of the internal organization of four separate specialized banks. At this time, institutional reform and internal reform of the economic organization will coincide, i.e., external reform impetus being applied directly to reform the organization internally.

1. Destruction of the Specialized Banks Monopoly Position. Currently, there are four different ideas about this issue: One is to loosen banking business market access under strict standards (General Planning Research

Team, 1992), permitting the founding of new banks. The second is to permit the several already existing small banks, such as the Zhongxin Industrial Bank and the Guangda Bank, to do business across province lines to foster the formation of nationwide banks. Third is to permit the founding of civilian-run banks (Fan Gang [2868 4854], 1993). Fourth is to divide up the four specialized banks into several banks by province or region (World Bank, 1993). Even though the feasibility of these ideas awaits validation, the basic idea of destroying the specialized banks monopoly position is correct.

2. Separation of Policy-Related Banks and Specialized Banks. As a result of many years validation, the government, the central bank, and the centralized banks have reached a consensus on this issue, and it has been spelled out in the State Council-approved financial reform plan (Chen Yuan [7115 0337], 1993).

3. Reform of the Specialized Banks' Organizational Structure. a) Structural reorganization of China's industrial and commercial banks: While retaining the framework for the main office and branch system, the provincial branches should be abolished, 40 to 60 urban branches being placed under direct jurisdiction of the head office, these branches retaining about 80 percent of existing savings deposits. These urban branches would be operating branches doing business directly with business enterprises and not administrative banks as formerly. The remaining branches would be organized as regional savings banks in a head office and branch bank system, doing business within a specific province. Their capital could be augmented through the issuance of corporate shares, and their business would attract business enterprise and individual savings deposits. They would provide short-term credit, settlement of accounts, and other retail services to industrial and commercial firms. b) Structural reorganization of the Chinese Bank of Agriculture: Once agricultural policy-related banks have been founded, the existing Chinese Bank of Agriculture would become a Chinese agricultural cooperative bank system. The Chinese Agricultural Cooperative Bank would have a head office (at the national level), but it would no longer be like the present all-encompassing large bank with a headquarters and branches but rather a multilevel corporate system. The head office's funds would come from purchases of shares by regional level agricultural cooperative banks and, aside from regular commercial bank business, its main business would be to balance financing among the regional agricultural cooperative banks, and to standardize the system's regulations and dealings with foreign countries. The present Bank of Agriculture provincial branches would be eliminated. Branches and sub-branches below the provincial level, and local rural credit cooperatives having requisite conditions would be amalgamated through the share system into a multitude of agricultural cooperative banks. They would be divided into grassroots level banks (county or township) and prefecture or municipal banks, all of them being independent corporate entities. c)

Changes in the structure of the Bank of China and the Chinese People's Construction Bank. These two banks would become commercial banks retaining intact their head office and branch system, but the provincial level bank level would be abolished. From among the numerous first level urban branch banks, regional banks in charge would be selected as was the case with the Bank of China organizational structure before 1986. The main purpose of these changes is to weaken the direct relationship between the existing specialized bank provincial branch banks and local governments in the provinces, to prevent the regionalization of provincial branch banks, and to enhance head office regulatory authority and capabilities.

In discussions of reform within the specialized banks during recent years, the cry for decentralization of authority over provincial level branch banks has been very loud. (This is related to local government support.) These banks want a greater delegation of autonomy to provincial and prefectural branch banks, and they maintain that this is the only way to increase the operating efficiency of the specialized banks. Actually, this is a mistaken understanding. If a commercial bank system of a head office and branch banks is adopted, externally the bank would be an independent corporate entity, and internally there would be no need for market dealings among branch banks. If corporate or semi-corporate entity status is conferred on branch banks, and market trading is done internally among branch banks (such as making short term loans, savings and loan business, and securities trading back and forth), that would demonstrate that the bank has not attained the optimum returns of scale, and that it should be divided up into several banks or become a multilevel corporate system group bank. The twisted organizational structure of the specialized banks in China today is due to this: Outwardly, they are a single bank, but internally, the operating autonomy among branch banks is very great. They conduct market trading among themselves, and branch banks even sign external contracts without authority of the head office. This blurs the line between the market and enterprises. It is an expression of the mixing of equity rights. Consequently, beginning with the equity structure in reorganizing the national specialized banks holds great significance. The author believes that once policy-related banks are set up and the "Corporation Law" is passed, the Chinese Industrial and Commercial Bank, the Bank of China, and the Chinese People's Construction Bank may be transformed into a full capital state-owned limited liability corporation and, once conditions are ripe, this may be changed into a stock share limited liability corporation.

4. Elimination of government administrative interference in the specialized banks. Once they have been transformed, as full capital state-owned commercial banks, the specialized banks should have the following relationship with the government: First, the government should have decision making authority only about the hiring and firing of the director of a commercial bank's

head office, and it may not concern itself with internal bank personnel matters. This is the most crucial point, namely a clear-cut client-agent mechanism. The specialized banks would have a vertical system, and the provincial government and governments below the provincial level would not interfere with personnel matters within the bank. Second, no level of government could interfere in the specialized banks' credit business. Third, the state-owned commercial banks would set up a board of supervisors, the board of supervisors personnel to be selected by the government (most of them coming from outside the bank). The board of supervisors would be empowered to supervise and examine the state-owned commercial bank's business plan and how well the value of state-owned capital was being maintained and increased. It would supervise, evaluate and note the performance of the bank director, and make recommendations on hiring, firing, rewards, and penalties.

5. Integrated business orientation. Once China's specialized banks have been transformed into state-owned commercial banks, the integration of their business orientation is inevitable. The position of commercial banks in providing short-term loans to industrial and commercial enterprises is well established. Throughout the world today, the business of commercial banks that have a head office and branch bank system shows a universal trend toward diversification and all-inclusiveness, and this trend has also been quickly transmitted into China. Although China's specialized banks have nominally maintained the business separation system whereby they could not deal in securities or investment, in fact, they did do every kind of business through separate trust investment corporations. Therefore, the issue is not a separate business system or a comprehensive system per se, but on what kind of foundation to build an oversight framework. If the specialized banks become commercial banks that account independently, are responsible for risks, are self-limiting, have autonomy in operation, and are responsible for their own profits and losses, and strict oversight measures also apply to them (such as the make-up of their assets and proportional limits standards, assets responsibility proportional standards, and independent operation agent proportional standards), the integration of its business will not carry a very great risk. Instead, this will help mesh China's finance and banking with international finance and banking. The key issue is oversight, not what kinds of business the bank does.

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Features of New Industrial, Commercial Tax System

94CE0443A Beijing JIDIAN RIBAO in Chinese
2 Apr 94 p 2

[Article by Zan Fuxiang (2501 4395 4382): Part One of a Series of Discussions on the New Tax System: "The New Features of the New Industrial and Commercial Tax System"]

[Text] *Editor's note: Since the new tax system went into effect at the beginning of 1994, the JIDIAN RIBAO editorial department has received many letters from our readers, reporting a lack of understanding of the substance of this tax reform, and hoping that we would fill them in on it. In response to these requests, the editorial department has invited the Ministry of Machine Building and Electronics' Economic Regulation and State Assets Oversight departments to write a series of articles on the new tax system, which we are carrying here successively for reference by our large numbers of readers.*

In the new tax system that went into effect at the beginning of 1994, what actually are the new features? The new parts are in contrast to the old system. Our former industrial and commercial tax system was formed after the 1984 substitution of taxes for profits and the overall reform of industrial and commercial taxes and profits, being a multi-tax and -profit, multi-link, and multi-level compound tax system with 32 tax

categories, the major ones being the flow and income taxes, complemented by related auxiliary tax categories. But it was not adaptable to our socialist market economy development, being hard to play the proper regulatory role in the area of dealing with the distribution relations among the state, enterprises, and individuals and between the center and localities, which was adverse to the formation of China's large uniform market and the implementation of our state industrial policy.

The new tax system reforms old-system defects, such as nonuniform tax laws and tax administration, a too complicated tax system, too many and indiscriminate tax preferences, and an ever-growing gap between nominal tax rates and real tax burdens, so will be bound to bring stability and prosperity to economic activities, mainly as follows:

—It will contribute to fair tax burdens, promoting equal competition. The former enterprise income tax categories were set up with tax rates varying by respective ownership systems, with large- and medium-sized state enterprises subject to a 55-percent proportional [flat] tax rate, private enterprises subject to a 35-percent flat tax rate, and small state enterprises and collective enterprises subject to an eight-grade progressive tax rate for excess income. The new tax system sets the enterprise income tax rate at 33 percent, while giving the proper consideration to small enterprises with smaller annual incomes by setting two additional lower tax rates, to consolidate the tax laws and regulations for domestic-invested enterprises [DIEs]. As enterprises of all ownership systems use the same financial accounting principles, when calculating income taxes, they all adjust taxable income based on the provisions of the income tax laws and regulations, with the tax provisions on reductions and exemptions also becoming more consistent, thus consolidating taxable income criteria. While the former flow tax system included the three tax categories of value-added taxes, product taxes, and business taxes, the new flow tax system uses a dual regulatory system of general regulation through value added taxes and special regulation through consumption taxes in coordination with business taxes, overcoming the old tax system's irrational phenomena, such as duplicate collections and overlapping regulatory functions. As the new tax system consolidates the internal and external flow tax system, as well as gradually consolidating other internal and external tax categories, it paves the way for the operation of a uniform and equal tax policy in the same market climate for DIEs and FIEs of all economic-ownership components.

—It will help to rationalize the distribution relations among the state, enterprises, and individuals. Certain too high tax rates in the old tax system were hard for enterprises to bear, with its host of preferential policies hard for the revenue sector to deal with. Local governments and responsible departments also used various pretexts to collect sizeable amounts from enterprises through means, such as management fees,

various funds, and set-asides. Contract-enterprise income taxes made enterprise income taxes exist in name only, as well as making for a confusing dual status for the state as both public manager and state-enterprise assets owner. The new tax system eliminates income-tax contracting, contributing to the conversion of both enterprise operating forces and government functions. The new tax system eliminates the "state enterprise regulatory tax" and the collection from state enterprises of state transportation and priority construction funds and state budget-regulation funds, not only lightening enterprise burdens, but also changing this nonstandard distribution form between the state and enterprises. For instance, the state-enterprise income tax rate had reached 55 percent, with some having to pay profit-regulation taxes, causing enterprise difficulties that forced the adoption of tax-reduction and -exemption measures, causing a phenomenon of high tax rates, many preferences, a narrow tax base, and low tax burdens, and eroding the tax base to cause a large loss of revenue. The new tax system will change this situation of reductions by the state and enterprise insustainability. In the old tax system, as to individual income taxes, foreigners were subject to the "Individual Income Tax Law," Chinese citizens to the "Interim Regulations on Individual Income Regulation Taxes," and individual industrial and commercial household operations to the "Interim Regulations on Urban and Rural Individual Industrial and Commercial Household Operation Income Taxes," with three taxes coexisting. This was hard to interpret in both legislation and execution, as well as being out of line with international practice. The new tax system provides for individual income taxes to be collected mainly on higher incomes, with lower or no taxes on middle and low incomes, helping to regulate the personal income gap, as well as alleviating the conflict of social distribution injustice.

- It will help to delimit central and local revenue and tax management jurisdiction, to meet the needs of tax sharing. As the market role in the disposition of resources has expanded steadily, the flaws of the former revenue package system have grown ever-more evident. The division of tax categories in the new tax system considers not only income distribution between the center and localities, but also the regulatory impact of taxation on economic development and social distribution. All legislative authority for central taxes, jointly-shared taxes, and local taxes is concentrated in the center, to ensure uniform central government decrees, and to preserve a nationally uniform market and equal enterprise competition. The taxation uses graded collection, with central and shared taxes collected by the central tax agency, the local share of shared taxes deposited directly into local treasuries by the central tax agency, and local taxes

collected by local tax departments. This will help economically developed regions to continue to maintain a faster growth momentum while, through central-revenue return and transfer payment of taxes to localities, supporting the development of economically backward regions and the upgrading of old industrial bases.

- The new tax system streamlines and standardizes tax categories. The elimination of tax categories not suited to economic development, merging of duplicate tax categories, and installation of certain necessary tax categories, will contribute to tax-system simplification and efficiency. For instance, we have switched all of the products previously subject to product taxes to value added taxes, as well as selecting 11 products, such as tobacco, alcohol, cosmetics, expensive jewelry, and small motor vehicles, for collection of consumption taxes in addition to value added taxes, to reflect the principle of essentially maintaining the previous tax burden. The new system's business taxes have been expanded appropriately to include not only DIES and units, such as state, collective, and private enterprises, and operations by Chinese citizens, but also FIEs and foreign enterprises. While the old business-tax collection scope involved secondary industries and all tertiary ones, the new business tax can include in principle operations that provide taxable services, transfers of invisible assets, and sales of real property. The new business-tax taxable items are reduced from 14 to nine, with the 27 tax rates in four grades reduced to nine in two grades. The collection of value added taxes on land can appropriately regulate excessive real estate transaction profits. The urban and rural construction maintenance tax will become one of the key tax categories in the local tax system. Other revisions of tax categories are: 1) we have abolished the rural market transaction, livestock transaction, oilburning special, bonus, and wage regulation taxes; 2) we have made the special consumption tax a consumption tax with a special regulatory role; 3) we have eliminated the collection from FIEs and foreigners of urban real estate and car- and boat-use license taxes, collecting uniform real estate and car-and boat-use taxes, and suitably raising currently too low tax rates and payments; 4) we have devolved authority to localities for slaughtering and banquet taxes; 5) we are collecting inheritance taxes.

Through this tax reform, China's new industrial and commercial tax system will have the 17 tax categories of value added, consumption, business, individual income, enterprise income, FIE and foreign-enterprise income, resource, urban land use, land value added, urban and rural construction maintenance, real estate, car and boat, fixed asset investment orientation regulation, stamp, securities transaction, inheritance, and slaughtering taxes.

INDUSTRY

Problems in Commercializing S&T Achievements

94CE0441A Beijing JIDIAN RIBAO in Chinese
6, 8 Apr 94 p 3

[Article in two installments by Yan Jiuzu (0917 0036 4371): "Commercialization of S&T Achievements Plagued by Eight Problems"]

[6 Apr p 3]

[Text] For the nation as a whole, whether or not scientific and technological [S&T] achievements are promptly transformed into productive forces is a vital issue that will determine whether the Chinese economy will grow steadily and rapidly in a sustained fashion and whether the Chinese people can proudly take their place among the nations of the world. For an enterprise, it is also a paramount issue that will decide whether or not it will hold its own on the market where competition is becoming more and more ferocious. Thus far we have been less than adept at handling these two major issues, with the result that the transformation of S&T achievements is plagued by eight major problems. For the enterprise, there is no running away from these obstacles either. What are these eight obstacles? How can we overcome them? This article will run a series of five articles starting today. We will begin by discussing the eight factors that hamper the transformation of S&T achievements into productive forces. Next we will look at S&T work in the United States and Japan and find out how S&T achievements there are turned into productive forces. Will the series of articles set our readers thinking and making mental associations? Will they come up with some good suggestions about S&T work in China and the transformation of S&T achievements? Jot them down and mail them to us; S&T work needs participation and strategizing by the public.

- The effective energy utilization rate in China is only two-thirds that of advanced nations.
- The large-area dissemination and application rate of S&T achievements in China is merely 15 percent.
- Only 4 percent of China's high-tech products are exported.
- Only 34.5 percent of China's national-level major S&T achievements are commercialized. - China spends a mere 0.71 percent of its gross domestic output on research and development [R&D].
- There are eight major problems in the transformation of S&T achievements in China.

Importance and Urgency

The Chinese economy has been expanding rapidly in recent years. Rapid growth, however, masks such problems as poor productivity, low profits, irrationality in the

industrial structure, and lack of competitiveness. These problems will inevitably crimp further economic growth.

China's international trade has grown significantly in the last few years, with exports almost hitting \$400 million in 1992. Ten years ago, China accounted for 1 percent of global trade; now its share has risen to 2.5 percent. Manufactured goods used to make up 50 percent of Chinese exports; to date they constitute 80 percent. Nevertheless, most of the increase in exports still occurs in labor-intensive industries like textiles and footwear. Chinese exports enjoy an edge—in price, not in quality or technological content.

China is a relatively resource-poor nation. In this nation that requires 1.1 billion tons of standard coal each year to keep the economy growing, however, the effective energy utilization rate is only two-thirds that of advanced nations. In China, for instance, it takes 400 grams of coal to generate one kwh of electricity, 100 grams more than other nations. We consume 30 percent more energy than elsewhere to manufacture a ton of steel, 70 percent more to make a ton of cement, and 100 percent more to turn out a ton of glass.

To sum up, China must rely on S&T progress and accelerate the transformation of S&T achievements if the Chinese economy is to continue to grow steadily and healthily for a long time to come.

Present Situation and Gap

Some research units have calculated the rates of contribution of S&T progress to economic growth since reform went under way and the open policy was introduced: 16 percent in the 1980's and rising to 20 percent in the 1990's. Transactions on the technology market rose from 2.1 billion yuan in 1985 to 15.6 billion yuan in 1992, a 640 percent gain. The rate of the large-area dissemination and application of S&T achievements is only 15 percent. According to classified standards statistics compiled by the General Administration of Customs, while high-tech products made up 4 percent of China's total exports in the 1980's, the corresponding figures for other newly industrialized countries [NIC's] during the same period ranged from 10 to 15 percent. New products accounted for 32 percent of total sales by U.S. firms in 1986; the projected figure for the 1990's is 50 percent.

We can see from the above data that although China has made significant headway in S&T achievements transformation since reform went under way and the open policy was introduced, it still trails the developed nations and the NIC's. Without a wealth of new products with S&T content, it will be impossible for China to beat the competition on the world market in the months and years ahead. Thus identifying the structure that will accelerate S&T achievements transformation has become a hot topic in the S&T policy debate in China.

Problems and Difficulties

—Institutional barriers. Scientific research versus production. High-tech research versus traditional industrial transformation. Making use of industry-based technical centers versus raising the technical standard of enterprises. Importing technology versus developing it on our own. Problems abound when it comes to planning comprehensively and coordinating and balancing the two sets of issues, revolving around the nation's priority tasks. Our S&T work is characterized by large-area low-level duplication. Numerous S&T achievements are not effectively and promptly applied in production. The same piece of technology may be imported many times over, which prevents what limited funds we have from being utilized properly. All these problems are commonplace. They involve not only the macro-management of the economic system and S&T system, but also the sound division of labor and optimal configuration of such systems. To effectively marry S&T with the economy at a high level, we must improve the existing S&T management system and economic planning management system and establish a mechanism whereby scientific research organizations and institutions of higher education can participate in major national economic projects.

Developed nations have taken a host of measures in recent years to speed up S&T advances, economic growth, and S&T achievements transformation. Take the United States, for instance. The U.S. Government has stepped up the macro-management of science and technology in recent years, doubling its attention to the role played by research and consulting in S&T decision-making. Former President George Bush elevated his scientific adviser to presidential assistant, equal in standing to the assistant to the president for national security affairs, who could participate in national economic and security policy-making at the top level. In February 1990 he revived the Presidential Scientific Advisory Commission and put it on a par with the Council of Economic Advisers. This was followed by the restructuring and strengthening of the Federal Scientific, Engineering, and Technological Coordinating Committee to enable it to play an even more extensive role in inter-departmental S&T policy coordination. It was precisely because of the heavy involvement of the U.S. Government that the United States was able to turn the tide in the global computer chip war and beat Japan.

—Weak consciousness. With its huge population and poor foundation, China is economically and culturally backward. In China the development of social productive forces is hampered by a variety of serious constraints: demographic, resource, and environmental. Traditionally we have tried to develop the economy by consuming huge amounts of resources. Efficiency was low and social productivity was equivalent to barely 5 percent of the best in the world. We will be doomed if we do not size up the times and grasp the opportunity with a sense of urgency and a sense of crisis and truly base economic construction on S&T advances and the

improvement of the quality of the labor force. The new global technological revolution is more than an economic challenge to us, it is also a political challenge. The more economically and culturally backward a nation, the greater its need to make science, technology, and education its top priority and put them to use to achieve a quantum leap in the development of productive forces and productivity. In this area we should be more alert, more conscious.

The relations between S&T, on the one hand, and the economy, on the other, has never been properly straightened out over the years. Agencies which manage S&T and their counterparts in charge of the economy have been converging institutionally and overlapping functionally. In the process, we have ignored to achieve a sound division of labor between the two. Meanwhile, departmentalism, localism, both byproducts of the small-agriculture mentality, and the idea of preventing an outflow of profits have also inhibited the formation of a fruitful partnership between S&T and the economy.

If cadres at all levels continue to fail to truly appreciate the importance of S&T and remain content with the kind of short-term progress resulting from continued extensive development, if they still do not realize the danger posed by the widening gap with the West and fail to think in terms of the nation's general interests, then the future looks grim as far as China's four-modernization drive is concerned.

—Institutional malfunctioning. In a market economy the law of value plays a dominant role and all means of production circulate on the market and participate in competition. Hence the formation of the average rate of return. As organic capital formation increases, moreover, there is a tendency for the average rate of return to decline steadily, forcing enterprises to scramble for relative surplus value by working harder to improve production technology. At a time when international competition is getting ferocious, in particular, a number of illegal channels "leading to excessive profits" are often blocked, thus leaving S&T competition the sole forum for legitimate competition. The enterprises' urgent demand for S&T progress is precisely why the market economy can accelerate the transformation of S&T achievements.

However, even in developed capitalist nations with a market economy, government spending on S&T channeled through the planning mechanism almost equals what industry itself invests in S&T. The reason is this. While S&T typically wrestles with mid- and long-term economic development problems, market demand is basically short-term or near-term. Macro-planning by the state, therefore, is needed to compensate for this weakness. Thus, if we organically and flexibly deploy the two mechanisms—market and planning, S&T will successfully drive economic growth in a sustained manner and an endless flow of S&T achievements will be transformed into competitive new products.

S&T planning under a planned economy differs from S&T planning under a market economy. The former is technology-led, shaped mainly by what is in the plan and the technology development plan. The latter is market-driven, essentially a response to short-term and long-term market demand. S&T achievements transformation is much more rapid under the latter.

—Sluggish demand. Enterprises are the principal transformers of S&T achievements, but their demand for S&T is less than robust. The reasons are multifaceted. Based on the findings of surveys on some enterprises and scientific research institutions, they can be summarized as follows: 1) Since China is still in transition from a planned economy to a market economy, enterprises still have not realized their own decision-making authority. According to a survey on 6,800 large and mid-sized enterprises across the nation, only 15 percent have been truly vitalized. Government intervention remains excessive. 2) For the two-thirds of the nation's large- and medium-sized enterprises which are still losing money, these are tough times. They lack the economic means to go after S&T progress. 3) Enterprise leaders do not have a strong awareness of science and technology. 4) Funds are lacking for transforming S&T achievements. According to statistics, of the achievements already transformed, self-raised funds were used in 56.8 percent of the cases; government funds allocated under the S&T plan, 21.6 percent; loans, 5.2 percent; and venture capital, a mere 2.3 percent. The transformation of S&T achievements embraces the entire process from the laboratory to industrialized production, of which the most difficult stages are intermediate testing and industrialized trial production. They require investment on a large scale but is highly risky. 5) There are no common interests between enterprises and scientific research units. Enterprises complain that the units turn out immature achievements, poor in quality but high-priced. Scientific research units criticize enterprises for not understanding the value of technical commodities. The gap between enterprises and research units has never been properly bridged. Studies have been conducted on the standard of technology currently provided by research units in the country. Of the large enterprises surveyed, 77.4 percent considered it "average," 19.6 percent said it is "not high," and only 3 percent deemed it "fairly high." Even among small- and medium-sized enterprises, 59 percent said it is "average" and 28 percent regarded it as "not high." In addition, 38 percent of large enterprises and 62 percent of small- and medium-sized enterprises considered existing technology transfer costs "too high." In contrast, 90 percent of scientific research thought they are "too low." 6) R&D funds are not actually made available. Under State Council regulations, enterprises may set aside 1 percent of their sales revenue to fund R&D. According to statistics, however, one third of enterprises set aside 1 percent while two-thirds fail to do so. According to surveys on the metallurgical, chemical, mechanical,

and electronic industries, the set-aside rates are, respectively, 0.5 percent (1.5 percent), 1.1 percent (3.3 percent), 1 percent (4.5 percent), and 5.5 percent (10 percent). (Figures in parentheses are averages of similar industries overseas) The spending gap between China and other countries is 1:3 on the average. 7) Scientific research units balk at transferring their achievements and would rather commercialize them themselves. Statistics show that of all national-level major achievements, 34.5 percent were transferred and commercialized while 56.2 percent were commercialized by the research units themselves. The reason is that transfer fees were lower than R&D costs in 50 percent of the projects transferred. With transfer, moreover, there is no guarantee that intellectual property rights would be protected. Of the projects surveyed, no protective measures were taken in 45.7 percent of the cases. 8) Enterprises have meager capacity for technology development. Statistically, 54 percent of large and mid-sized enterprises have their own technological development offices, but only one-third are really doing their job. Enterprises account for just 29.5 percent of all professional and technical personnel in the nation, only 24.6 percent of them senior personnel. 9) Enterprises prefer importing foreign technology and equipment to using domestic S&T achievements. According to studies on the machinery and electronic industries, 39.8 percent of the new technology applied was imported while barely 2.8 percent was domestic in origin. Altogether China spent more than \$100 billion in the past decade importing technology and equipment, far higher than what the nation spent on R&D at home. The reasons are manifold, eg., imported technology is mature, dependable, and of a higher standard, and can be swiftly put to work. Importing foreign technology also provides opportunities for overseas training.

As part of corporate restructuring in recent times, a new form of enterprise has emerged in the United States. For the specific purpose of developing a particular product, a number of companies and scientific research institutions may get together to form an "ad hoc" company. When the mission in question is accomplished, the company is disbanded. U.S. corporations too have been undergoing restructuring in recent years. They discover that the bigger a company, the more bureaucratic it becomes. This is the main organizational reason why the United States has lost out to Japan in international competition over the past few years. Japanese companies are structurally connected both horizontally and vertically. Big companies and big corporations are composed of small companies level upon level, with the small companies enjoying a substantial measure of independence. These days big U.S. corporations are scrambling to break up into smaller units to make themselves more flexible. It was against this backdrop that the idea of an "ad hoc" company was born.

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[Text] There are eight major problems in S&T achievements transformation in China.

—Under-investment. Not enough is being spent on S&T achievements transformation relative to R&D funding. The shortfall differs from industry to industry, but usually ranges from hundreds of percent to 1,000 percent. Without increasing investment, all the talk about accelerating S&T achievements transformation will remain empty talk. The question is: Who will pay and how? How much money should be invested in a particular stage of the transformation process should depend on its riskiness and nature. S&T achievements derive from R&D. To ensure an unbroken flow of achievements, we must begin by boosting investment in R&D. Although they are currently in the grip of an economic recession, developed nations around the world have been boosting their R&D spending sharply relative to the GNP, almost reaching 3 percent. It may be that people who control the purse strings in those countries truly appreciate the importance of S&T in the modern world. Moreover, the leaders of a number of NIC's and developing nations who have seen the light are also scrambling to increase S&T investment. By the end of the century S&T funding will reach 5 percent in South Korea and 2 percent in India, up from the current 0.9 percent. Other countries like Brazil, Egypt, and Thailand are also rushing to augment S&T spending.

In China, R&D spending accounted for 0.72 percent of the GNP in 1991 and dropped to 0.71 percent in 1992. The decline had something to do with the rapid expansion of the GNP in 1992, but it also shows that R&D spending has failed to keep pace with GNP. If we persist in our present mentality and continue to force economic growth by desperately expanding the scale of operations and boosting sham GNP through waste, instead of relying on S&T to bring about economic development, China will be overtaken by other developing nations, never mind catching up with the advanced nations. We must commit ourselves to increasing S&D spending to 1.5 percent of the GNP by the end of the century, up from the current 0.71 percent.

Enterprises should increase investment in S&T even as the government does likewise.

Venture capital should be used to finance the transformation of most S&T achievements. According to estimates by venture capital companies overseas, in the 1970's it was possible to make a profit when one project out of ten survived and in the 1980's, two out of 10. The transformation of high-tech achievements will not be a success unless we go all out to put the venture capital business on a sound footing.

There are over 600 venture capital investment companies in the United States with a combined capital exceeding \$100 billion. About 3,000 high-tech companies rely on these funds to finance their operations. For

the most successful venture capital companies in the United States, the annual rate of return can run as high as 50 percent. More typically the rate of return is around 35 percent.

Intermediate testing, industrial testing, and production, all stages in the transformation of S&T achievements, should mainly be financed by credit. State banks should set aside funds specifically to make S&T loans. Between them, the Industrial and Commercial Bank of China and the Agricultural Bank made S&T loans totalling 3.84 billion yuan during the Seventh Five-Year Plan and over 3 billion yuan in 1991 alone. But this is far from sufficient. By 1995 S&T lending should exceed 10 billion yuan. Already S&T lending in the Seventh Five-Year Plan has paid off. The 3.84 billion yuan in S&T loans extended by the banks had financed 6,300 projects as of 1990, boosting output value by 15 billion yuan and profits and taxes by 3.4 billion yuan and earning \$850 million in foreign exchange.

—Lack of personnel mobility. The most effective way to speed up S&T achievements transformation is to enable such achievements to move with their vehicles—S&T personnel. But since there are all sorts of barriers to the circulation of qualified personnel, the magnitude of such circulation is severely limited. Involved here is a host of issues tied up in social and economic reform: housing, health insurance, old age insurance, permanent residency registration, education for their children, and the job title system. It is proposed that the government speed up the reform of the social security system, particularly unemployment insurance, pension insurance, and health insurance. In addition, housing reform should be accelerated. When achievements circulate along with qualified personnel, disputes will occur over intellectual property rights. The state should draw up the appropriate policies, laws, and regulations to encourage circulation and protect intellectual property rights at the same time.

With qualified personnel immobile and small and mid-sized enterprises, particularly township and town enterprises, desperate for expertise, there has arisen the "second job" issue. Wages of S&T personnel should be decontrolled and the government should collect taxes based on a progressive income tax system. The job titles of S&T personnel may be divided into national-level and local-level ones. National-level job titles may be evaluated in accordance with national standards while local ones should be evaluated by the units themselves. To sum up, the government should introduce a "three-decontrol" policy with regard to S&T institutions and S&T personnel, namely decontrolling the hiring of personnel, decontrolling the distribution system, and decontrolling job titles.

In accordance with the principle of "stabilizing one end and deregulating one part," the management of S&T institutions should vary depending on their type. There should be strong government support for institutions conducting basic research and public-interest research.

Institutions and scholars who receive official aid should be evaluated every few years and measures taken depending on evaluation results. Open market-oriented research organizations should be left to the market; such organizations should be given decision-making authority in their operations and held accountable for their own profits and losses.

With the exception of scientific research institutions which handle state secrets and commercial secrets, other research institutions should be thrown open to society across the board. Controls on equipment, machinery, and personnel should be lifted. The fee-for-use and fee-for-service system may be adopted to accelerate S&T achievements transformation. "Going outside" is not enough; we should also take pains to "invite them in."

Major scientific research institutions may consider vitalizing a section or office first by allowing it to join forces with one part of an enterprise to form a "flexible company." Once the task in question is completed, the company will be dissolved.

Decontrol S&T personnel. Allow them to circulate freely in accordance with market supply and demand. The government should take pains to adopt a variety of incentives to encourage S&T personnel. As far as the acceleration of S&T achievements transformation is concerned, in the past most incentives were targeted at people in R&D, while little was done to encourage people who had made outstanding contributions to design, intermediate testing, and production development. High-tech and new technology development zones have been instrumental in high-tech development. A number of special policies should be introduced on a trial basis in the high-tech development zones with hopes of accelerating high-tech commercialization, industrialization, and internationalization. To boost investment in high-tech, for instance, the Australian Government has formulated a "150 percent tax rebate policy." Here in China, the government has adopted a "three-exemptions-and-two-cuts" policy in high-tech development zones. For people engaged in genuine R&D, incentives should be made even more attractive in the future. This is because high-tech development is highly intellectual and highly risky and requires substantial inputs, so incentives should be augmented.

Let us take a look at the current state of China's high-tech development zones. The Zhongguan Cun development zone boasts the highest concentration rate of expertise in the world, yet other than the Stone Group, whose sales exceed 1 billion yuan, everybody else operates on a fairly modest scale. The biggest problem is that it is everybody for itself in the zone. There is no systems design, no coordination. Instead the companies are like stragglers and disbanded soldiers, each fighting its battle on its own. At best the zone can be described as a place where a number of high-tech companies are concentrated. It has not yet developed the collective edge of a high-tech development zone.

—Importation mismanagement. When it comes to importing and transforming advanced foreign technology promptly, Japan must be the most successful in the world. In the 20 years between 1968 and 1988, Japan spent \$6.3 billion importing a total of 30,000 pieces of technology. Had Japan tried to develop the technology itself, it would have cost them 14 times more in R&D funding and taken four times as long. By importing the technology, Japan reaped \$1,000 billion in direct profits. What a big pay-off!

There is no denying the contribution of technical imports to the sustained and rapid growth of the Chinese economy in the 13 years since reform went under way and the open policy was introduced. According to 1990 statistics, China spent \$100 billion importing technology and equipment in the previous 10 years, about \$15 to \$18 billion on the importing of technology alone. While no exact data exist on the direct benefits of such imports, the macroeconomic results have been quite good. However, the management of importation has many problems, which can be summarized as follows:

The phenomenon of "imports hurting domestic industries." There were many technologies and much equipment which China was able to provide. Still, vast sums were spent buying from overseas. Not only was precious foreign exchange wasted, but these imports also dealt a blow to domestic industries and S&T work.

"Duplicate importation." According to 1988 data, 113 color TV production lines were imported, as well as 33 low-quality micro-electronic parts production lines, 70 refrigerator production lines, and 15 copier production lines. In the case of color TV production lines, the rate of capacity utilization is less than 50 percent.

Little spent on absorption, assimilation, and innovation relative to the spending on importation. Japan spends between \$5 to \$7 on absorption, assimilation, and innovation for every \$1 it spends on importing. China spends very little on the former. At one point in the past, China put together a "12 dragon" absorption and assimilation plan but implemented only part of it for lack of funding. Take, for instance, China's iron and steel enterprises. They have a \$6 billion import budget but spend a mere 490,000 yuan on absorption and assimilation.

—Incomplete laws and regulations. As noted above, the transformation of S&T achievements has been badly hurt by disputes between enterprises and scientific research organizations over intellectual property rights. Successful technology transfer must take place within the appropriate legal framework. A legal framework is needed to give technology transfer a favorable environment.

It is suggested that the government accelerate S&T law-making to protect intellectual property rights. This is a prerequisite for accelerating S&T achievements transformation.

SMALL-SCALE ENTERPRISES

Survey on Jiangsu Rural Enterprise Stock System

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[Article by Gu Jiekang (7357 0094 1660), Cao Guangfu (2580 0342 4395), Wang Xuefei (3769 7185 7236), Xu Sihua (1776 1835 5478), and Gu Xinhua (7357 2450 5478) from the Research Office of Jiangsu Provincial Committee: "Reflections on the Issue of Carrying Out the Rural Enterprise Stock System in Jiangsu"]

[Text] Recently, we conducted a systematic investigation on carrying out the stock system in the rural enterprises of Jiangsu Province. We visited the five cities of Suzhou, Zhenjiang, Yangzhou, Yancheng, Xuzhou, and 10 counties and districts. According to relevant information, by the end of August 1993 Jiangsu had 8,801 township enterprises (bodies) under various stock systems (excluding Huaiyin City). Total capital stock was 7.569 billion yuan, of which 2.088 billion yuan was newly increased capital stock. Viewed from regional distribution, more than 60 percent of them were located in the three cities of Nantong, Yancheng, and Yangzhou. Viewed from the proportion of stock system enterprises in township enterprises, 7.45 percent was the average figure for the whole province, and the above-mentioned three cities made up respectively 27.56 percent, 12.98 percent, and 6.92 percent, whereas the three cities of Suzhou, Wuxi, and Changzhou only made up 1.74 percent, 3.64 percent, and 5.59 percent. There are five types of stock systems now being carried out in various places: increase the number of shares, discount the number of existing shares, joining shares by legal persons, joint partnership shares, and collective shares by individuals. Most were transformed from original collective enterprises. Altogether, there were 5,676, accounting for 64.5 percent of the existing stock-sharing enterprises. Trends show that southern Jiangsu primarily focused on collective enterprises and northern Jiangsu mainly targeted individual and private economies to implement stock systems. We can see from the above data that Jiangsu had an uneven development in carrying out the township enterprise stock system. However, the general trend is that it is unfolding from pilot programs to large areas, and in some cities and counties the practice is gradually gaining momentum.

Evaluation of Carrying Out the Stock System at Present

In general, in recent years various localities carried out the stock system by pilot programs, promoted it only after gaining experience, and development has been healthy. Practice shows that carrying out the township enterprise stock system is another great creation of the Chinese farmer. It is also another new breakthrough in continuing rural reform at present. Viewed from achievements made in various localities, the role of this move stands out in the following five areas: It is conducive to (1) clarifying the relationships of property rights in enterprises; (2) strengthening the sense of masters and

risk on the part of the cadres and staff of enterprises; (3) increasing new channels for raising capital; (4) adjusting the organizational structure and product mix, and strengthening the competitiveness of enterprises; and (5) establishing and perfecting constraining mechanisms, and standardizing collective economic organizations of communities and the managerial behavior toward enterprises by the government.

At present, current problems in carrying out the stock system are mainly: One, some cadres and masses have so far not unified their thinking. They still have quite a few "mistakes" and doubts in understanding. Second, some localities over emphasized the fund-raising function of stocks and neglected the transformation of management mechanism of enterprises. Thus, the stock system became a mere formality. Three, there was a lack of standardization in demarcating property rights and establishing stock rights. Particularly, controversy grew intense and practices varied over two issues, namely, the establishment of enterprise stocks and the change of collective stocks to individuals. Four, the proportion of individual stock partnership was low, only about 10 to 15 percent throughout most parts of the province. In practice, it is difficult to increase the staff's concern over the performance of enterprise management by this proportion. It is also very difficult to bring into play the superiority of the stock system. Five, relevant policies do not match. Particularly, the nature of enterprises under stock systems, registration, and credit policies are not clear yet. This has affected the enthusiasm and initiative of enterprises.

The Issue of Linking the Stock System to the Contract Management Responsibility System

Some comrades believe that practicing the stock system means the replacement of the contract management responsibility system. This is a misunderstanding. There is no exclusionary relationship between the stock system and the contract management responsibility system. What the stock system solves is the property rights of enterprises, that is, the ownership of assets. What the contract management responsibility system solves is the management mechanism of enterprises. Some people simply put this kind of relationship into "property rights are shared in the form of stocks and management is revealed in contracts." This statement is reasonable. For township enterprises to establish modern enterprise systems, there should be a good combination of the stock system and the contract management responsibility system. Mutually complementary, these two systems will bring their roles into full play.

In terms of linking the stock system to the contract management responsibility system, Zhenjiang's experience is worth noting. Their practice is "two changes and two nonchanges." That is, "the form of distribution changes but contractors normally do not change; plans for management and development change in accordance with actual circumstances, but the contract quota system normally does not change." "Stocks" and "contracting"

will combine to achieve a stable link. Board of directors, board of supervisors, and stock holders meetings must actually exercise their functions and powers. Township governments must reduce their administrative interference in enterprises. The form of entrusting stock holder representation can be employed to ensure the appreciation of collective assets of enterprises under the stock system. Experiences of grassroots organizations show that the relationship between township governments and enterprises practicing stock systems should include four areas: planning, coordination, supervision, and service. At the same time, attention should be paid to training a contingent of township entrepreneurs who have vision, clear thoughts, know how to manage businesses, and are knowledgeable of modern commodity economy. Only by so doing can we truly establish a highly efficient enterprise management mechanism in which property rights are clear, two powers are separated, and shareholders participate in democratic management and democratic supervision.

The Issue of the Distribution of Benefits

The distribution of benefits is a critical link in carrying out the stock system. Whether this can be handled well has an important impact on mobilizing the enthusiasm of the collective, enterprises, and individuals so as to let the stock systems develop in a healthy way. Two principles should be adhered to in distributing benefits: One is the principle of rational accumulation to accumulate reserve strength for the development of enterprises. Earnings resulting from tax reduction or remittance on other preferential policies can be retained in enterprises as "state support funds" to be used for developing production, but not for profit distribution. These funds belong to all stockholders. Two is the combination of the principle of distribution according to work and distributing profits according to stock shares. In terms of distribution according to work, enterprises can determine the form of distribution within the scope of ratified wages. In the implementation of distributing profits according to stock shares, the principles that should be carried out are "effectiveness determines distribution," and "hand in first, put aside reserves, and then distribute." After taxes are turned in, the accumulation funds, public welfare funds, and bonus funds can be withdrawn. Then, profit funds can be withdrawn. In principle, profit distribution has no maximum or minimum limitations. What is actually implemented is that both benefits and risks are shared. In enterprises under the stock system, in practice profit distribution after taxes are turned in is done in various localities by adopting "50-50 distribution." That is, 50 percent will serve as enterprise development funds, and the other 50 percent as profits and staff welfare funds and bonus funds. Within a certain period of time, the distribution of the "50-50" proportion is feasible, provided that enterprises have retained adequate production development funds. This form of distribution is conducive to gradually training stockholders in a sense of risk and reducing difficulties in setting up the stock system.

In various localities the distribution of benefits from individual shares takes three forms, namely, drawing extra dividends while retaining interest, drawing extra dividends while taking interest, and drawing extra dividends while excluding interest. For the stock system to become standardized as much as possible, the practice of drawing extra dividends while taking interest should be gradually transferred to drawing extra dividends while excluding interest. Drawing extra dividends while retaining interest should not be advocated. Stock system enterprises that have implemented the practice of drawing extra dividends while retaining interest should change within one or two years (normally the limit is within one cycle of profits distribution) into drawing extra dividends while excluding interest. Only drawing extra dividends while excluding interest can actually strengthen the staff's sense of risk, enhance the staff's concern over the business performance of enterprises, and thus form a management mechanism of sharing both benefits and risks.

In the perfection of a stimulus mechanism for benefit distribution, we can imagine some measures as follows:

1. Increase the volume of individual shares. Enterprises that have conditions can gradually increase the proportion of individual shares in the total capital of enterprises as much as 30 percent, or greater. At the same time, they should encourage management decision makers to invest more shares, invest large shares, and gradually form enterprise stock controlling circles.
2. To mobilize enthusiasm of the staff, 10 percent to 20 percent of the collective stocks can be taken out as the basis for drawing extra dividends but the ownership will not be transferred. A change of such a share should be accompanied by one or two cash matching shares from the staff.
3. After implementing the stock system, profits that were originally turned in to the township after taxes can be substituted by drawing extra dividends according to shares. Any dividends above 20 percent can be retained in enterprises for the expansion of collective shares.

The Issue of Matching Policies

Many policy issues are involved in the system change of stocks. Viewed from general areas, attention should be given to work in four areas. One, the departments concerned in the province should work out relevant policies and regulations as soon as possible. Two, establish and perfect rural cooperative economic organizations to exercise the management function of collective assets. Three, establish rural cooperative economic accounting offices and auditing offices as soon as possible. Four, establish share rights circulation service organizations, and guide the rational flow of property rights in stock system enterprises within a certain scope. We suggest that policies in the following areas be clarified in the near future:

1. The nature of enterprises should be clarified. Various types of enterprises under the stock system should normally be treated as a new type socialist economic nature and supported vigorously.

2. When business changes and registrations take place, we should follow the principle of "seeking truth from facts, and simplifying formalities." Business administration departments should examine and approve based on enterprise charters and have them registered as their first priority. When old enterprises transform their systems, fees should be charged only as registration change.

3. In the areas of credit, township enterprises that had stock system changes should still be treated as the nature of their original enterprise. Appropriate support should be given to stock system enterprises with individual stock pooling. Individually pooled shares, which are also an important aspect of consumption funds being changed into production development funds, should be encouraged.

FOREIGN TRADE, INVESTMENT

Compilation of Documents on Managing Telecommunications Industry

94CE0487A Beijing COMPILATION OF DOCUMENTS ON MANAGING THE OPENING UP AND OPERATION OF THE TELECOMMUNICATIONS INDUSTRY in Chinese Oct 93 pp 1-17

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[Text] State Council Circular Approving the Ministry of Posts and Telecommunications' Ideas on Better Improving Telecommunications Service Market Management (3 August 1993)

The State Council has approved the Ministry of Posts and Telecommunications' [MPT] "Ideas on Better Improving Telecommunications Service Market Management," and is now transmitting them to you, asking that they be implemented conscientiously.

Ideas on Better Improving Telecommunications Service Market Management

To adapt to the needs of reform, opening, and socialist modernization, by better conforming to and serving our economic development focus, the posts and telecommunications sector, while striving to build a uniform, complete, and advanced national communications network, needs to fully tap all specific communications network potentials, by arousing the initiative of all parties, to speed up communications industry development.

In recent years, China has opened up to the public some telecommunications service operations. The telecommunications services that are now open to public operation are: wireless call-finder services; 800 MHz (megahertz) colony phone services; 450 MHz (megahertz) wireless mobile communications services; domestic VSAT (very small antenna terminal) communications services; telephone information service business; computer information service business; electronic mailbox services; electronic data exchange services; video chart and document services; other telecommunications services approved or permitted by the State Council or MPT.

To preserve normal communications order, ensure state and user communications safety and communications service quality, and create a climate of fair competition, we need to improve our management of telecommunications service markets that have been opened to operation. So we are setting forth the following ideas:

1. For open-operating [deregulated-operation] telecommunications services, we should practice declaration and operating license systems. For all operations at the provincial, autonomous regional, or municipal level, local posts and telecommunications management departments should take declarations, be responsible for examining, approving, and issuing operating licenses, and report to MPT for the record. For trans-provincial (-autonomous regional, -municipal) operations, MPT should take declarations, and be responsible for examining, approving, and issuing operating licenses [permits]. Without examination and approval, no unit or individual should be allowed to operate the abovementioned telecommunications services without authorization. As to specific application regulations for declaration and operating permit systems, MPT will draw up and publish them according to the abovementioned ideas. Units already operating the abovementioned telecommunications services should make up the pertinent formalities per provision.

2. Units applying to operate wireless communications services must apply for operating permits to the MPT or their local posts and telecommunications management departments according to the stipulated examination and approval jurisdiction, and can operate only after obtaining operating frequencies approved by the wireless management sector based on operating permits.

3. Departments and individuals that obtain approval to operate the abovementioned telecommunications services may not set up regional barriers, and must observe the pertinent national communications policies, laws, and regulations, submit to trade management, oversight, and inspection by the responsible state communications department, guarantee telecommunications service quality, strictly execute state expense policy and pertinent fee-collection [charge] standards, pay taxes according to law, and protect the legitimate rights and interests of users. Service operations may not obstruct

the normal operation of the national public telecommunications network or communications development, or impede the regular operations of other specific communications networks.

4. The responsible state communications departments must create a climate of fair competition for posts and telecommunications enterprises and other enterprises that operate communications services. Posts and telecommunications enterprises at all levels should act according to the principles of compensated use and reciprocity and the state of supply and demand, and cooperate with each other. Units approved by the responsible state communications departments and holding telecommunications service operating permits must provide items, such as the basic relay equipment and lines necessary for service, to ensure that they provide good telecommunications service to the public.

5. Foreign firms may not operate or participate in the operation of communications services in China. No cable or wireless communications services of the public and specific communications networks in China may be operated or participated in by any outside group, enterprise or individual, or by the wholly foreign-owned enterprises or Sino-foreign joint or contractual joint ventures already in operation in China, nor may they attract foreign investment in any form for shareholding operation.

6. MPT and all provincial, autonomous regional, and municipal posts and telecommunications management departments must oversee and inspect the execution of the abovementioned provisions. Posts and telecommunications enterprises and other units operating telecommunications services that violate the abovementioned provisions will be respectively warned, criticized by circular, given deadlines by which to put things right, ordered to stop operating, have their illegal operating income confiscated, and be subjected to administrative fines, all the way to penalties, such as revocation of operating permits. Posts and telecommunications departments at all levels are absolutely forbidden to exploit license-issuance opportunities for personal gain, or to secure advantages through pull or influence, and once discovered doing so will be punished severely.

Interim Regulations on Managing the Examination and Approval of Deregulated-Operation Telecommunications Services (published by MPT on 11 September 1993)

Article 1. To improve telecommunications service market management, meet public communications needs, and act in accordance with the provisions of the State Council's National Document #55 (1993), we have drawn up these regulations.

Article 2. Nonposts and telecommunications enterprises providing deregulated-operation telecommunications services in China should observe these regulations.

Article 3. MPT is in charge of organizing, applying, overseeing, and managing these regulations; provincial, autonomous regional, and municipal posts and telecommunications management departments are responsible for the particular application, oversight, and management of these regulations within their administrative jurisdiction.

Article 4. The following deregulated-operation telecommunications services are subject to the operating-permit system:

- A. Wireless call-finder services;
- B. 800 MHz colony phones;
- C. 450 MHz wireless mobile communications;
- D. Domestic VSAT (very small antenna terminal) communications;
- E. Other communications services for which operating permits are approved by MPT.

Article 5. The following deregulated-operation telecommunications services are subject to the declaration system:

- A. Telephone information services;
- B. Computer information services;
- C. Electronic mailboxes;
- D. Electronic data exchanges;
- E. Video charts and documents;
- F. Other telecommunications services subject to the declaration system with MPT approval.

Article 6. Without MPT and provincial, autonomous regional, and municipal posts and telecommunications management department (abbreviated hereafter as responsible communications department) examination and approval, no unit may operate telecommunications services.

Foreign groups and individuals, as well as the wholly foreign-owned enterprises and Sino-foreign joint and contractual joint ventures in China, may not invest in, operate, or participate in the operation of telecommunications services.

Article 7. As to the number of operating permits issued for the telecommunications services listed in Article 4 of these regulations, the responsible communications departments will set this based on communications resources and actual needs.

Article 8. The basic terms for providing deregulated-operation telecommunications services are:

- A. Sponsoring or investing units must be legally qualified state enterprises and institutions or collectively-owned enterprises;

B. There must be technicians and managers suited to operating activities;

C. There must be the necessary funding;

D. There must be the necessary service facilities and sites; the communications equipment connections to the public telecommunications network should conform to MPT-provided net-access technical requirements;

E. There must be the capability to provide long-term service to users.

As to the particular requirements for the provision of all deregulated-operation telecommunications services, MPT will make other provisions.

Article 9. Applications for operation of telecommunications services on the provincial, autonomous regional, and municipal levels will be subject to the examination and approval of local posts and telecommunications management departments, which will report on them to MPT for the record. Applications for trans-provincial, -autonomous regional, and -municipal operation of telecommunications services will be subject to MPT examination and approval.

Article 10. Units applying for deregulated-operation telecommunications services should submit the following application material to the responsible communications department

A. (Written) applications for deregulated-operation telecommunications services;

B. Feasibility reports, with key items, such as service category, service limits, market forecast, development scale, technical criteria, and anticipated service quality and charges;

C. Pertinent certification data in line with the terms provided in Article 8.

Article 11. As to applications to operate the telecommunications services listed in Article 5 of these regulations, responsible communications departments should decide whether to approve or not, and notify applying units in writing, within 30 days of receiving all application materials.

Article 12. As to applications to operate the telecommunications services listed in Article 4 of these regulations, responsible communications departments should conduct initial examinations periodically and in groups after receiving all application data; for ones that are determined through initial examination to conform to basic terms, such departments should conduct comprehensive choice through appraisal and, based on the frequency data that wireless management organs can provide and the relay equipment and lines that posts and telecommunications enterprises are able to supply, determine operating units by excellence, issuing them operating permits, and publicizing this.

Article 13. Units that obtain permission to operate wireless communications services should take their operating permits to wireless management organs to apply per provision for frequency designation and station setup and use.

Units that obtain permission to operate telecommunications services should take their operating permits or declaration-approval documents to the industrial and commercial administration sector to undergo enterprise registration formalities.

Article 14. Operating permits for deregulated-operation telecommunications services will be uniformly printed by MPT.

Telecommunications-service operating permits may not be counterfeited, altered, or transferred without authorization.

Article 15. Operating permits are valid for a period of five years. When operating permits expire, operators wishing to continue should, within 60 days of their operating-permit expiration, reundergo operating permit formalities according to the provisions of these regulations.

Article 16. During the period of operating-permit validity, if the substance provided for in operating permits changes, permit-holding units should promptly undergo the corresponding alteration formalities at the original issuing organ.

During the period of operating-permit validity, units wishing to terminate operations should first apply to the original issuing organ, being responsible for dealing well with the aftermath for users, and then undergoing operating-permit cancellation procedures.

Article 17. Posts and telecommunications enterprises should act on the principles of compensated use and reciprocity, providing the basic relay equipment and lines needed for operation by the units that obtain permission to operate telecommunications services, and charging according to stipulated criteria. For units that have not yet obtained permission to operate telecommunications services, posts and telecommunications enterprises may not provide relay equipment or lines.

Article 18. Units that obtain permission to operate telecommunications services should observe the pertinent state communications policies, laws, rules, regulations, and technical standards, and subject themselves to trade management, oversight, and inspection by responsible communications departments. Service operators should ensure service quality, and execute national charge policy, not exceeding approved operating limits, or obstructing the normal operations of the national public telecommunications network or specific [exclusive, private] telecommunications networks.

Article 19. Responsible communications departments will oversee and inspect the service conditions of operators obtaining permission to provide telecommunications services. Overseers and inspectors should carry MPT-printed oversight and inspection credentials.

Units that obtain permission to operate telecommunications services should report the pertinent statistical data to responsible communications departments yearly per provision.

Article 20. As to violators of Article 6, Article 14 Section 2, and Article 18 of these regulations, responsible communications departments will, based on circumstances, criticize by circular, set deadlines for correction, confiscate illegal credentials, and revoke operating permits or rescind declaration-approved documents, ordering posts and telecommunications enterprises to cut off relay lines, and publicizing this; violations that involve industrial and commercial administration laws and regulations will be turned over to the industrial and commercial administration sector for prosecution; violations of public security management penalty regulations or the criminal law will be submitted to public security and judicial organs to investigate and affix legal liability.

Units whose operating permits are revoked should be responsible for the corresponding legal liability to their users.

Article 21. As to violators of the provisions in Article 17 of these regulations, responsible communications departments will order them to improve by deadlines and, based on the severity of the case, provide warnings, criticize by circular, and investigate and affix the administrative liability of the leaders concerned.

Article 22. Responsible communications departments must adopt the pertinent style convenient to public reporting, and accept public oversight. Employees who misuse power or engage in favoritism or embezzlement, in minor cases, will be subjected to administrative penalties; severe cases that constitute crime will be submitted to judicial organs to legally investigate and affix their criminal liability.

Article 23. Declaring units that disagree with declaration-reply decisions can apply to MPT for administrative reconsideration.

Article 24. Those who refuse to accept as final refusals to issue operating permits or administrative penalties can, according to the provisions of pertinent state laws and regulations, request administrative reconsideration or bring suit in people's courts.

As to penalized litigants that pass the deadlines for requesting reconsideration or do not bring suit, but still refuse to comply with penalty decisions, organs that made the penalty decisions can ask people's courts to force them to comply.

Article 25. Communications industry management organs of MPT and provincial, autonomous regional,

and municipal posts and telecommunications management departments have the specific responsibility for handling matters related to the examination and approval of deregulated-operation telecommunications services.

Article 26. Units already providing deregulated-operation telecommunications services before these regulations took effect should, within 60 days of their taking effect, make up the operating-permit or declaration procedures as provided by these regulations; those that do not make up the procedures by deadlines or are determined through examination to be unqualified to operate may not continue to operate, and will be penalized according to the provisions in Article 20 of these regulations.

Article 27. These regulations take effect on 1 November 1993.

MPT on Conscientiously Implementing the "State Council Circular Approving the Ministry of Posts and Telecommunications' Ideas on Better Improving Telecommunications Service Market Management" (2 September 1993)

State Document #55 (1993), the "State Council Circular Approving the Ministry of Posts and Telecommunications' Ideas on Better Improving Telecommunications Service Market Management," is a key step taken by the state to invigorate the telecommunications service market, arouse the initiative of all parties, and speed up communications industry development, being a legal document to better improve telecommunications service market management, preserve normal communications order, ensure communications quality, and protect the interests of the state and the large numbers of users. MPT has acted in line with this State Council circular, by drawing up the "Interim Regulations on Examination and Approval Management of Deregulated-Operation Telecommunications Services" (abbreviated hereafter as "Management Regulations"), which will be issued and put into effect. In order to better implement the State Council circular and MPT's management regulations, we are specially setting forth the following requirements:

1. All posts and telecommunications management departments will organize their concerned cadres to conscientiously study and master the spirit of these documents, ensuring that cadres' ideological understanding and views conform to the spirit of these documents. To ensure the smooth progress of the tasks of examination and approval, making up and undergoing operating-permit formalities, and taking declarations, all posts and telecommunications management departments will appropriately replenish their trade management staffs and, after receiving MPT's management regulations, will investigate, study, and present specific ideas on implementing these documents, promptly reporting them to provincial, autonomous regional, and municipal people's governments. We will publish in the press the State Council circular and MPT's management regulations, as well as publishing an announcement

clarifying the pertinent policies, and publicizing the names, contacts, and contact phone numbers of the posts and telecommunications management departments handling these tasks, for the convenience of units applying or undergoing make-up formalities for operating telecommunications services.

2. All posts and telecommunications management departments will provide stronger leadership to communications enterprises at all levels and ideological indoctrination to the concerned employees, to create good public terms for fair competition by the clearly deregulated-operation telecommunications services.

Communications enterprises will do all they can to promptly provide the relay lines needed to start service to units that have received permission to operate telecommunications services, and are prohibited from setting up obstacles or creating difficulties on any grounds, or engaging in unhealthy tendencies in any form.

All posts and telecommunications management departments will certainly stand with the state, conscientiously performing examination and approval management for deregulated-operation telecommunications services. Examination and approval employees will act impartially, being absolutely forbidden to abuse their authority for private gain or secure advantage through pull or influence. They will publicize oversight phone numbers, conscientiously subjecting themselves to public oversight.

3. As the policy on examination and approval management of deregulated-operation telecommunications services is very strong, all posts and telecommunications management departments will strictly enforce MPT provisions and, in coordination with actual local realities, conscientiously perform their trade management functions, by carrying out their examination and approval management justly and rationally. Pertinent policies and actual problems encountered in this work will be promptly reported to MPT.

MPT Circular on Taking Applications and Make-Up Applications for Deregulated-Operation Telecommunications Services (11 October 1993)

As required by State Council circular, MPT published on 11 September 1993 the "Interim Regulations on Examination and Approval Management for Deregulated-Operation Telecommunications Services" (abbreviated hereafter as "Examination and Approval Management Regulations"), deciding to begin taking applications for deregulated-operation telecommunications services on 1 November 1993. Units already providing deregulated-operation telecommunications services must act in line with the provisions of the "Examination and Approval Management Regulations," by making up the operating-permit or declaration formalities before 31 December 1993; those that pass the deadline for making up formalities or are determined through examination to be unqualified to operate may not continue to operate, and

will be penalized according to the pertinent provisions in the "Examination and Approval Management Regulations."

All applications for deregulated-operation telecommunications services on the provincial, autonomous regional, and municipal level will be subject to examination and approval by the posts and telecommunications management departments in the provinces (autonomous regions, municipalities) in which they are located; applications for trans-provincial, -autonomous regional, and -municipal deregulated-operation telecommunications services will be subject to MPT examination and approval.

MPT and State Administration for Industry and Commerce Circular on Pertinent Examination and Approval Management Issues for Deregulated-Operation Telecommunications Services (14 October 1993)

To implement the "State Council Circular Approving the Ministry of Posts and Telecommunications' Ideas on Better Improving Telecommunications Service Market Management" (National Document #55 [1993]), by preserving a normal communications order and meeting public communications needs, we are here presenting a circular on pertinent issues involved in the management of examination and approval of deregulated-operation telecommunications services:

1. Units applying to operate wireless call-finders, 800 MHz colony phones, 450 MHz wireless mobile communications, domestic VSAT (very small antenna terminal) communications, telephone information services, computer information services, electronic mailboxes, electronic data exchanges, video charts and documents, and other telecommunications services approved by MPT for deregulated operation, should act in accordance with the provisions of State Council National Document #55 (1993) and MPT's "Interim Regulations on Examination and Approval Management of Deregulated-Operation Telecommunications Services," by undergoing examination and approval by MPT or provincial, autonomous regional, and municipal posts and telecommunications departments (abbreviated hereafter as responsible communications departments) and then, holding approved documents or issued operating permits, act in accordance with the provisions of the "Management Regulations for Enterprise Corporate Registration," by undergoing registration formalities at the industrial and commercial administration sector, to obtain business licenses, only after which they can begin operations. Units that have not been examined and approved by responsible communications departments and have not obtained operating licenses, may not operate deregulated-operation telecommunications services.

2. Units that have obtained permission to provide deregulated-operation telecommunications services, when needing to change items provided in operating permits or wishing to terminate telecommunications service in advance, should go to their original permit-issuing

responsible communications department to undergo alteration or cancellation formalities and, in accordance with the provisions in the "Management Regulations for Enterprise Corporate Registration," go to the pertinent industrial and commercial administration department to undergo registration alteration or cancellation formalities.

3. Units that have obtained permission to provide deregulated-operation telecommunications services, and which violate communications management laws and regulations, will be punished in accordance with the law by the responsible communications departments, with the pertinent industrial and commercial administration department being promptly notified. Units whose operating permits have been revoked or whose approval documents have been cancelled, should take such notification by responsible communications departments on their own initiative to industrial and commercial administration departments to undergo registration alteration or cancellation formalities; those that do not undergo registration alteration or cancellation formalities in accordance with the provisions of the "Management Regulations on Enterprise Corporate Registration" will be punished in accordance with law by the industrial and commercial administration sector.

4. Units providing deregulated-operation telecommunications services before State Council National Document #55 (1993) was issued, should make up operating-permit or declaration-approval formalities in accordance with MPT provisions; those found through examination to be in compliance with the provided terms will be issued operating permits or approval documents by responsible communications departments, which will be publicized; those found through examination to be out of compliance with provided terms may not continue to provide deregulated-operation telecommunications services, and will be punished by the industrial and commercial administration sector in accordance with the provisions of the "Management Regulations on Enterprise Corporate Registration"; posts and telecommunications enterprises, upon notification by responsible communications departments, will stop providing them with relay equipment and lines needed for telecommunications service.

Statistics, Trends in Sino-Japanese Trade, Investment

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[Article by Lin Ye (2651 0673), China Chemical Industrial Import and Export Corporation: "Trends Of Sino-Japanese Trade and Investment"]

[Text] 1. Macro-Trends

1) The State of Sino-Japanese Trade

Sino-Japanese trade has been growing steadily in the last few years. In 1992, at a time when Japan was mired in recession, when its trade with the United States and Europe barely held steady in the first half of the year and its exports to South Korea actually fell, Sino-Japanese trade shot up to almost \$30 billion, after breaking the \$20 billion barrier in 1991. According to a trade statistical bulletin issued by the Japanese Ministry of Finance, Sino-Japanese trade amounted to a historic high of \$28,903,000,000 in 1992, a gain of 26.7 percent from 1991. Specifically, Japan exported \$11,957,000,000 worth of goods to China, up 39.2 percent compared to a year ago, and imported \$16,946,000,000 worth of products from China, up 19.2 percent, with Japan running a deficit of \$4,989,000,000, off 11.4 percent from the deficit of \$5,627,000,000 in 1991. In the first half of 1993, China became Japan's second largest trading partner.

Sino-Japanese trade has continued its solid growth since the opening of 1993, totaling \$7,628,000,000 in the first quarter, up 23.5 percent compared to the same period a year ago. Japanese exports to and imports from China amounted to \$3,396,000,000 and \$4,232,000,000, up 36 percent, up 36.3 percent and 14.9 percent, respectively, from the corresponding period a year ago, giving Japan a trade deficit of \$836 million. If this trend holds up, Sino-Japanese trade may top \$30 billion for all of 1993 and Japan's trade deficit will continue to narrow, possibly dipping below \$3 billion for the entire year. Looking at the monthly data for the first quarter of 1993, Japan ran a deficit of \$750 million in January, \$50 million in February, and \$40 million in March, down 29.7 percent from the same period in 1992. If China continues to import steel and electrical machinery from Japan at the current rates, it may run up a trade deficit with Japan in some months but will still end the year with a small surplus. At a time when China's monetary policy is being tightened and structural adjustment is under way, in particular, the momentum in steel and electrical machinery importation by China may be stalled, making a trade deficit less likely.

2) Sino-Japanese Trade: Commodity Mix

Japan's imports from China in 1992 essentially consisted of the following: a) apparel, \$4.85 billion, up 50.1 percent, 43.5 percent of total Japanese apparel imports by value and over 60 percent by volume; b) electronic products, \$1.11 billion, up 34.9 percent. The growth in sound equipment exports such as radios and recorders was particularly striking, up 65.8 percent compared to the preceding year; 3) miscellaneous exports, also up sharply. In such categories as footwear, toys, and furniture, China has replaced South Korea as the top supplier to Japan. It is now the largest exporter to Japan of a lengthening list of products, accounting for 44 percent and 64.8 percent of total Japanese toy and umbrella imports, respectively. d) grain, oil, and foodstuff, up 20.6 percent. e) mineral-type fuels, down 3.4 percent from a year ago. Petroleum products imports plunged 37.5 percent, crude oil imports rose 1.2 percent to reach

\$1,791,000,000, and coal imports climbed 4.9 percent to hit \$296 million. f) Raw materials imports fell 6.4 percent to \$1.07 billion. Timber was the only gainer, up 20.2 percent. Otherwise steel imports fell 40.1 percent; cotton, down 46.7 percent; raw silk, down 55.1 percent between January and November; and silico-manganese, down 2.81 percent also between January and November. Chinese manganese exports to Japan will be badly hurt because of a decision by the Japanese Government to impose an anti-dumping tax on such exports.

Japan's exports to China in 1992 consisted mainly of the following: a) Electronic exports rose 61.7 percent, 55.4 percent of total Japanese exports to China; b) transportation machinery, including automobiles, \$1,163,000,000, up 111.7 percent from a year ago; c) steel, \$1,474,000,000 in value, up 8 percent from a year ago, and 2.4 million tons in volume; d) textile products, \$1,223,000,000, up 32 percent from 1991; e) plastics, up 17.4 percent; paper and paper products, up 35.3 percent; and records and tapes, up 144.4 percent.

Judging from the state of Sino-Japanese trade, China has become a major market for Japanese exports. In 1992 Japanese exports to China amounted to \$12.8 billion, 3.7 percent of total Japanese exports, making China Japan's seventh largest export market. Automobile and machinery exports practically doubled. Japanese imports from China continue to be dominated by grain, raw materials, coal, and petroleum, but machinery imports did show a gain. In the long haul, Japan would continue to see China as a market for its high-added-value products such as automobiles and electronic goods.

3) The Trends of Japanese Investment in China

a) Pattern of Japanese overseas investment

Investment in China is a key component of direct overseas Japanese investment as a whole. The latter, in turn, is a product of the shift in Japan's trade orientation strategy prompted by trade conflicts between that country and the United States and Europe.

Since recording its first trade surplus with the United States in 1965, Japan has waged an unbroken stretch of trade wars with the latter in such areas as textile products, iron and steel, automobile, and semi-conductor chips. Since 1980, the United States has been running a trade deficit with Japan in the tens of billions of dollars each year, accounting for between 40 and 60 percent of America's total foreign trade deficit, including a gap of \$43.67 billion in 1992. Japan's trade surplus with West Europe zoomed past \$20 billion barrier in 1987 and hit \$31.1 billion in 1992, 60 percent of the foreign trade deficit of the European Community. Japan's overseas trade surplus rose 20 percent in the first half of 1993 compared to the same period a year ago. For Japan, the direct consequence of a massive trade surplus is the appreciation of the yen against the dollar, which has

made Japanese products less competitive on the international market, which, in turn, has forced the manufacturing industry at home to shift operations overseas in a big way in favor of local production. Japan's overseas investment totalled \$170 billion between 1986 and 1990 and reached \$35 billion in 1992 alone. The lion share of direct Japanese overseas investment has gone to the United States. The resurgence of the U.S. manufacturing industry, including its success on the automobile, semiconductor, and computer markets, has squeezed the rate of return of Japanese corporations operating in that country to the depressed level of 1 percent. Since 1990, in fact, some companies have been losing money, causing Japanese investment in the United States to head downward steadily since 1989. In contrast, Japanese enterprises in East Asia have been chalking up margins of profit exceeding 5 percent. Japanese investment in East Asia has been on the rise since 1990. In East Asia as a whole, China has considerable appeal to Japan as a place to invest mainly because it enjoys relative political stability, its economic reform has brought it closer to the international market, and it boasts ample manpower and raw materials, low prices, and a vast domestic market. According to the latest statistics, Chinese wages are almost one-twentieth those in Japan. Of all Japanese enterprises in China, 70 percent are making a profit, in contrast to the low-profit operations of Japanese companies in West Europe and North America. This has persuaded Japanese business to increase investment in China. The Ricoh Corporation has decided to move the entire production of its standard copiers to China. The Sanyo Electrical Company is also considering shifting to China the production of television sets, air-conditioners, refrigerators, and video-cameras. As of late 1992, the Chinese Government had approved 3,694 investment projects from Japan, with a negotiated investment of \$5.97 billion, of which \$3.88 billion were actually invested, 11.3 percent of all foreign investment in China. As Sino-Japanese trade expands, Japan's investment in China will continue to grow substantially, as indicated by the following:

First, research on the Chinese market and economy is being taken seriously and the enthusiasm for investing in China is still going strong among large-, medium-sized, and small enterprises in Japan. There has been a marked increase in the number of large investment projects in China. Accordingly, economic and trade organizations along with banks and other institutions in Japan have all augmented their research offices and added staff to focus on changes in China's market and economy and the situation surrounding this huge potential consumer market. They regularly invite experts from the pertinent research organizations in China to visit Japan to brief them on China's economic reform and investment policy. A number of banks have also put together China tours for their customers so that they could get to understand China's investment climate, etc., on the spot.

Second, investment consulting organizations have been set up specifically targeting the market in China. The

Babaiban Group of Japan, a successful investor in the circulation sector in China, recently created a "China commercial investment club" in Tokyo. According to the group president, the investment climate in China is very good at the moment. China needs Japan's technology, experiences, and fund, so now is a good time for Japan to open up a new market in China. Babaiban plans to open 1,000 stores in China by the year 2010. As they see it, investing in the circulation business in China, where labor costs are low, requires little investment in terms of equipment. Even more important, China is a massive consumer market.

On the other hand, investing in China also presents some problems, notably the following:

First, Japanese investors have indicated that some large Japanese banks balk at making loans to small- and medium-sized companies which want to invest in China because it is too risky. This has dampened the interest of small- and medium-sized companies in investing in China. However, if the Bank of China would come forward to be the guarantor, the companies will find it easier to obtain credit.

Second, there are signs of growing friction between Japanese companies in China and the Chinese side over such issues as the legal person status, the retention of foreign exchange, and the examination of their financial and accounting systems.

Third, since 1992 there has been widespread concern among Japanese investors about the overheating of the Chinese economy which took place earlier and other problems like price increases and unstable exchange rates. Endless price increases and rising costs hurt the bottom line of joint ventures.

Fourth, the investment policy is too arbitrary and secretive and there is an excess of administrative intervention.

2) Changes in the structure of Japanese investment in China

Direct Japanese investment in Asia (including China) has changed in two remarkable ways since the latter half of 1980. First, within the manufacturing sector, investment in capital-intensive projects such as those in the electronic and automobile industries now accounts for a rising share of total investment. To encourage carmakers to invest in China, the Ministry of International Trade and Industry [MITI] in Japan plans to hold regular meetings with the Chinese Government and the enterprises, the focus being the automobile industry. According to MITI estimates, China's annual automobile demand will reach 3 to 5 million vehicles by the year 2000 (1.3 million in 1992), most of them being family sedans. Japanese carmakers will gradually shift their operations from Europe and United States to China. Currently an excessive portion of total investment goes to the non-manufacturing sector. In the future, the center

of gravity would gradually be shifted to the manufacturing sector. Second, investment in the tertiary industry has been rising relative to all investment. Japanese investment in the tertiary industry is concentrated in banking, commerce, and the restaurant trade. The well-known Babaiban Group, for instance, expects to open close to 1,000 commercial outlets in China by the year 2000.

2. Some Ideas on Expanding Sino-Japanese Trade and Investment

1) On Expanding Sino-Japanese Trade

Despite the lingering recession in Japan and its diminished demand for imports, the appreciation of the yen and mounting pressure from the United States and Europe on Japan to open up its market bode well for boosting Chinese exports to Japan. Furthermore, the decision by Japan and the Coordinating Committee on Export Controls [COCOM] to lift the embargo on a growing number of products also makes it easier for China to import from Japan.

However, there is concern in Japan's business community that measures of macroeconomic regulation and control taken by China to put the brakes on its overheated economy would worsen the foreign trade environment and public psychology. To pave the way for the resumption of China's membership in GATT, the renminbi may yet be devalued again. As part of its market diversification strategy and in order to reduce trade conflicts with the United States and Europe, China will increase its imports from those countries and South Korea, a move that will inevitably affect the share of imports from Japan.

According to analyses, Chinese exports to Japan in 1993 will grow at the same rate as in 1992 while imports are not expected to increase as fast as in the preceding year. Sino-Japanese trade is projected to grow 20 percent or so in 1993, for a total value of \$35 billion (Japanese customs figures). Specifically, Chinese exports to Japan will rise 15 percent to about \$19.5 billion; imports will go up about 30 percent to hit \$15.5 billion. With imports rising faster than exports, China's trade surplus with Japan will continue to shrink. Sino-Japanese trade is projected to break the \$50 billion barrier by 1995, making China Japan's largest trading partner after the United States.

To develop Sino-Japanese trade, we need to examine a few issues.

a) Sino-Japanese trade and investment are an important part of economic and trade relations in Asia as a whole. A new international trading pattern is taking shape today, one characterized by growing economic regionalization. To turn its economy around and prompted by self-interests and strategic considerations, Japan is in the midst of refocusing its economic and trade strategy to East Asia. With its expanding economy and 1.1 billion people, China naturally has become Japan's primary

target. It is important for them to further long-term cooperation and enter into a lasting complementary economic relationship. After establishing diplomatic ties and laboring for over 20 years, China and Japan have built a friendly cooperative relationship of mutual trust and complementarity. This complementary relationship will assume more prominence and the potential for developing bilateral economic and trade cooperation is vast.

b) Trade disputes multiply and the anti-dumping issue must be faced up to. Nowadays protectionism is on the rise around the world. As Sino-Japanese trade grows rapidly, trade friction between the two countries may intensify. At a cabinet meeting on 29 January 1993, the Japanese Government decided to slap an anti-dumping tax on manganese imports from China, the first time Japan conducted an anti-dumping investigation and imposed an anti-dumping tax on a foreign commodity invoking the terms of GATT as well as its domestic tariff law. This move was also unprecedented in the history of Sino-Japanese trade. Already both the Japanese public and the government are deeply concerned that Chinese textile imports are entering Japan excessively. The possibility of a second anti-dumping investigation into a Chinese product cannot be ruled out. We should give this matter our full attention and come up with a response. No time should be wasted in formulating all pertinent laws and regulations to meet the new challenge. In addition, China should consider acting correspondingly with regard to certain import commodities.

c) Enhance the competitiveness of export commodities and expand our share of the Japanese market. The Japanese market is ferociously competitive and highly demanding. Therefore it is imperative that we never stop researching and developing new commodities specifically with the changing characteristics of the Japanese market in mind. In particular we need to marry trade with science and technology to turn out more high added value products and make ourselves more competitive. In addition to ensuring the quality of Chinese products and broadening their variety and design, we need to stabilize the supply of merchandise long term and expand our exports to Japan. Recently many customers have complained that the quality of Chinese products has declined, deliveries are late, and export channels are disorderly. All of that should be taken seriously by the departments involved.

d) Use imports to increase exports. As the needs of economic construction at home grow steadily, China will import significantly more steel, machinery, and automobiles from Japan in the future. Steel imports, in particular, are slated to rise sharply. It has been calculated that China imported over 100 million tons of steel from Japan, enough to build 20 Laihu bridges (at 600,000 tons per bridge), in the 20 years since the two countries normalized their relations. At a time when the Japanese economy is still in the doldrums and its currency is rising in value, hurting its exports, the role played by China's massive imports in economic growth in Japan is

obvious. In accordance with the principle of equality and mutual benefit, therefore, China should continue to use imports to boost exports to Japan, including electronic casts, conventional machine tools, and coal.

e) Develop new commodities and cultivate the Japanese market without cessation. Japan ran up a whopping \$100 billion strong surplus in its foreign trade account in 1992, to the intense chagrin of the United States and countries in Europe which have repeatedly pressured Japan to open up its domestic market, even threatening to involve anti-dump provisions against Japan and limit imports from Japan. Japan has no alternative but to open up parts of its market in stages. This provides a good opportunity for Chinese products to make their way into the Japanese market. China has already acquired a wealth of experience in attracting Japanese capital and technology, improving packaging and design, and producing popular and marketable products with a high added value. By spotting and responding to trends and characteristics in the Japanese market, we must be ready to adjust our export strategy anytime, for example, by noting which commodities are going upscale, how uses are being coordinated, and what designs are becoming fashionable, and how improving packaging.

2) On Attracting Japanese Investment in China

a) The energy sector may well become the largest recipient of Japanese capital, a conclusion drawn from changes in Japan's energy strategy.

In the wake of the disintegration of the Soviet Union and changes in the Middle East, the energy community in Japan has begun adjusting both the form and the strategy of its energy trade. Instead of importing energy from abroad, which essentially constitutes the current Japanese energy policy, Japan is shifting to the development of energy resources overseas. Japan's trade associations and oil companies have begun petroleum prospecting overseas actively. Oil companies also are getting heavily involved in the liquefied natural gas market.

"Self-financed oil field" is the term used by Japan to refer to an oil-field in which it has invested and whose crude oil output it shares with the oil-producing nation in accordance with a predetermined ratio. There is a fundamental difference between Japanese and American or European international oil capital: the Japanese petroleum community has no "self-financed oil fields" or crude oil. This is the weakness of Japan's corporations. After the first global energy crisis in 1973, Japanese oil companies and leading trade associations acted on the national policy of broadening the development of self-financed oil-fields and got together to set up a joint petroleum development corporation to begin oil prospecting activities in Abu Dhabi, Indonesia, and China. However, with U.S. and European companies already established there, the Japanese found themselves shut out of the most productive oil-fields. For the Japanese, this venture had very modest results. In the late 1980's,

major Japanese trade associations abandoned investment-based oil trade, which is highly risky, one after another. Taking advantage of the opportunity, Japanese oil companies entered into direct trade with oil-producing nations and the trend gained momentum. Their role in energy trade weakened, the trade associations were forced to participate in the international energy market via the "self-financed oil-field" route. The appreciation of the yen and the explosion of fixed assets during the "bubble economy" days gave Japanese companies the financial wherewithal to invest in overseas oil prospecting and extraction. The end of the Cold War between East and West and the discovery of new oil-fields in countries like Vietnam and Yemen also opened the door for the resurgence of Japanese enterprises. Through a mix of competition and cooperation, Japanese trade associations and oil companies are in the process of putting together an integrated international oil capital system in the U.S. and European mode.

In developing overseas energy resources, the Japanese business community has not put all its eggs in the petroleum basket. As interest in environmental protection intensifies around the world, the demand for natural gas, which is far less polluting than oil, is rising by the day. Power companies in Japan have become more dependent on natural gas. In 1991, 28 percent of the electricity generated in Japan was derived from petroleum, more than any other fuel. By the year 2000 the figure is expected to fall below 20 percent. In contrast, 25 percent of the power generated in the year 2000 will be derived from natural gas, up from 22 percent in 1991. For this reason Japanese enterprises have been rushing to invest in natural gas development even as they put money into oil prospecting and exploitation. This is the new characteristic of Japan's involvement in the development of overseas energy resources. China should diligently explore any opportunity to extract oil and natural gas in cooperation with Japan.

b) The commercial and circulation sector can attract Japanese capital in a big way.

Since the circulation sector is a high-profit sector, it must be opened up to an extent that is just right. Specifically the wholesale part of the sector cannot be opened while retail operations can be thoroughly deregulated. Take advantage of this opportunity to accelerate circulation reform as well.

c) The automobile industry may well become one of the industries attracting most Japanese capital.

No major Japanese auto maker thus far has set up a large-scale production base in China, where the automobile market is one of the sectors with the most potential. Investing in the Chinese car industry is the next big move in Japanese investment, whether by transferring a plant here from Europe or the United States, entering into a joint venture with China, or setting up a wholly Japanese-owned enterprise. The Toyota Corporation, for instance, plans to increase its assembling capacity in

Asia, including China, from 350,000 to 1 million vehicles by the end of this century.

d) Most attractive to Japanese investors is the banking industry. But a lot will depend on the deepening of banking reform in China and how far China will go to open up banking to foreign banks.

LABOR

Urban Resident Incomes Increase

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in Chinese 4 Mar 94 p 1

[Article by correspondent Chen Xiaojie (7115 2556 2638): "State Statistics Bureau Sampling Survey of 35 Large and Medium-Sized Cities Revealed: Actual Income of Urban Residents Has Increased by a Large Margin"]

[Text] According to a sampling survey of urban households in 35 large and medium-sized cities conducted by the State Statistics Bureau, the incomes and consumption expenditure of urban residents in 1993 has increased by a large margin. Both their actual incomes as well as the level of their consumption has risen, but regional differences in people's incomes have been very large, and the range of residents with reduced incomes has broadened.

Urban residents' living expenditure incomes have shown actual increases of 10 percent. According to statistics, urban households of 35 large and medium-sized cities had per capita an average of 3,227.6 yuan available for themselves, 31 percent more than in the preceding year. The per-capita living expenditure income was 2,998.3 yuan, 31.5 percent more than in the preceding year. Deducting the inflation factor for the said period, the actual increases would be 9.4 and 10 percent, respectively. Although the average per-capita increase of living expenditure incomes was 7.8 percentage points higher than in the preceding year, the actual increase was somewhat lower, if the inflation factor is taken into consideration.

There are very evident changes in the structure of residents' incomes. The main characteristics of such are:

1) Incomes from salaries and wages are still in dominant position. Per-capita income of urban residents from salaries and wages in 35 large and medium-sized cities in 1993 was 2,092.6 yuan, 24.1 percent more than in the preceding year. In this increase, bonuses with allowances and subsidies had increased 41 and 38 percent, respectively; they had been the main factors for increases in salaries and wages. The proportion of income from salaries and wages in the residents' living expenditure incomes had declined to 69.8 percent from the preceding year's 73.9 percent, a decline of four percentage points.

2) Incomes other than from salaries and wages had steeply increased. Such other incomes that staff and

workers received from their units had increased 40.8 percent, compared to the preceding year. Net incomes of self-employed workers had risen 48 percent; other labor incomes of residents had increased 68 percent.

3) Incomes of staff and workers in three kinds of foreign-funded enterprises and in other ownership systems had increased by a large margin; staff and workers had per capita an average of 88 percent more income available to themselves than in the preceding year.

Very large increases were registered in the three cities of Ningbo, Shanghai, and Beijing, showing up the existence of large regional disparities. According to statistics, increases of per-capita living expenditure incomes in the three cities of Ningbo, Shanghai, and Beijing had been 51.2, 42.8, and 39.4 percent, respectively, compared to the preceding year. They are the highest among the 35 large and medium-sized cities surveyed. Of cities with 30 percent or higher increases in incomes there were also: Guangzhou, Shenzhen, Haikou, Hangzhou, Nanjing, Jinan, Wuhan, Changsha, and Nanning. Per-capita living expenditure income of the residents of Shenzhen reached 7,070.5 yuan, which places this city at the head of all the 35 large and medium-sized cities, with Guangzhou in second place with 4,984.4 yuan average per-capita living expenditure income. Average per-capita living expenditure income in the eastern coastal cities was by 26.3 percent higher than the average for all the 35 large and medium-sized cities; this ratio had further widened, as compared with the preceding year.

Consumption expenditure of the urban residents is continuously rising, while the consumption structure is essentially remaining stable. According to statistics, average per-capita consumption expenditure in the 35 large and medium-sized cities during 1993 was 2,746.3 yuan, 30.4 percent more than in the preceding year. Deducting the inflation factor, the actual increase was 9 percent. Conditions of the various expenditure items in this category were:

1) Consumption of foodstuffs increased steadily, but consumption volume of some declined. Average per-capita expenditure for foodstuffs was 1,397.4 yuan, 22.9 percent more than in the preceding year, but deducting the inflation factor, the actual level of consumption had risen only 3.1 percent. Expenditure for foodstuffs accounted for 50.9 percent of total expenditure, a decline of three percentage points, as compared with the preceding year.

2) Clothing expenditure had increased, and more of the higher quality clothing was bought. The residents' average per-capita expenditure for clothing was 376.2 yuan, and after deducting the inflation factor this was 19.1 percent more than in the preceding year.

3) Expenditure for household equipment and appliances, and expenditure for cultural and recreational purposes, showed a fairly strong rising trend. In the 35 large and medium-sized cities during 1993, the average per-capita

expenditure by the citizens on such equipment, household goods, and services was 240.2 yuan, an increase of 33 percent over that of the preceding year. The average per-capita expenditure for articles for cultural and recreational purposes was 244.7 yuan, an increase of 36.5 percent. Average per-capita increases were registered in the following durable consumer goods purchases: purchases of washing machines increased 36.5 percent; purchases of air conditioners increased 1.5 times over; purchases of composite audio sets [zu he yin xiang 4809 0678 7299 0742] increased 14.3 percent; and purchases of color TV sets increased 1.3 percent.

Up to the end of 1993, among the possessions in every 100 households in the 35 large and medium-sized cities were: 91.1 sets of color TV sets, 82.4 electric refrigerators, 90.1 washing machines, 44 photo cameras, 8.5 sets of composite audio sets, 25.6 tape recorders [lu fang xiang ji 6922 2397 4161 2623].

4) Housing expenses had rapidly increased, while housing conditions had continuously improved. Since 1993, the nationwide housing reform had been forcefully pushed forward, and housing conditions for residents have gradually improved. According to statistics, per-capita expenditure for the purchase or construction of housing has increased 2.2-fold, compared to the preceding year. Per-capita expenditure on furniture and fittings of houses was 15.8 yuan, an increase of 287.3 percent over the preceding year. Because measures of the housing reform have gradually been implemented, housing expenditure of the residents has increased. Per-capita rent, with water, electricity, and fuel added, amounted to 148 yuan, an increase of 36.6 percent over the preceding year and accounting for 5.4 percent of the residents' consumption expenditure.

5) Individual expenditure for sundry commodities and services has increased at a large margin, and the quality of life has been improved.

Because the quality of life of urban residents has continuously been improved, expenditure used by the individual resident has continuously increased. Average per-capita individual expenditure in the 35 large and medium-sized cities in 1993 was [number indistinct] yuan, an increase of 30 percent over the preceding year. In this expenditure an average of 26 percent more was spent on gold, silver, and other jewelry, and 44 percent more on cosmetics. In Shenzhen, Guangzhou, Shanghai, and Xiamen average individual expenditure was more than [number indistinct] yuan, which was the most among all the 35 cities surveyed.

Statistic data also reveal that the income levels of urban households have gone up. Considering the effects of commodity price inflation, unemployment, and population increases, actual incomes of some parts of the population have declined. The extent of declining incomes reached 30 percent, which is 5 percentage points more than in the preceding year.

POPULATION

Eastward Movement of Population: Hebei Case

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[Article by Gu Xiusong (6328 4423 1529), affiliated with the Population Studies Institute at Hebei Teachers College: "Issues Involved in the Eastward Movement of China's Population as Seen From Hebei Province's Population Migration"]

[Text] Around the time of the early 1980s, reports of the "white-collar" eastward movement from western China were beginning to be a common occurrence; since the mid-1980s, the surge of a great army of floating population into China's eastern coastal provinces and cities has grown into even more of a hot topic; a 1987 population sampling confirmed the existence of this general trend of eastward population movement; the "fourth census" showed that all of China's eastern coastal provinces and cities, except for Hebei Province, had experienced a net population inflow. In fact, Hebei was no exception. We are here discussing several issues involved in China's eastward population movement as seen from this "special case."

I. Hebei's Population Outflow and Western Population Immigration

A 10 percent sampling from the "fourth census" showed that from mid-1985 to mid-1990, while Hebei's population movement was a net outflow, its permanent-residence-registration movement showed a net inflow, with the net outflow being caused by the inclusion of the large population that had moved out temporarily for more than one year.

1. As to the population movement into Hebei from mid-1985 to mid-1990, all mainland provinces and cities showed an immigration to Hebei of 469,140 people, of whom 190,850 were male and 278,290 were female, for a male-female ratio of 1:1.46.

A) As to place of origin, the numbers were greatest from Sichuan, which accounted for 15.03 percent of Hebei's immigrant population; Heilongjiang came next, accounting for 9.63 percent; then in descending order came Inner Mongolia, accounting for 8.54 percent, Shanxi for 6.1 percent, Shandong for 5.4 percent, Henan for 5.38 percent, Guangxi for 4.8 percent, Liaoning for 4.46 percent, Shaanxi for 4.15 percent, Beijing for 3.72 percent, Jilin for 3.7 percent, Guizhou for 2.94 percent, Yunnan for 2.3 percent, and Xinjiang for 2.2 percent; the other provinces and cities accounted for less than 10,000 people each, with Hainan and Tibet accounting for the least, and Shanghai for only 1,160. These figures show that:

As to the population immigration into Hebei, the south-western region, which historically had less population exchange with Hebei, accounted for the largest percentage.

The "three north" region, which historically had close population exchange with Hebei, came second.

The immigration from southeastern coastal provinces and cities was least.

B. As to sexual distinction, the sexual composition of the immigrant population to Hebei from all provinces and cities had clear regional features. The places with the highest female percentages were Guangxi, where females made up 94.33 percent, Guizhou at 90 percent, Sichuan at 87.64 percent, and Yunnan at 87 percent, with secondarily Inner Mongolia at 60.73 percent, Shaanxi at 60.6 percent, Heilongjiang at 57.79 percent, Liaoning at 54.49 percent, and Jilin at 51.2 percent. As to other provinces and cities with immigration to Hebei of over 10,000, such as Beijing, Tianjin, Shandong, Henan, and Xinjiang, males ranked first in all cases. This shows that:

Of the immigrant population to Hebei from the southwest, females ranked exceptionally high, with the northeast coming in second.

All of the immigrant population to Hebei from its periphery and other economically developed regions was mostly male.

2. As to the population movement out of Hebei from mid-1985 to mid-1990, the figure was 665,590, of which 431,460 was male and 234,130 was female, for a male-female ratio of 1:0.54.

A. As to emigration destination, the numbers were greatest to Beijing, which accounted for 33.73 percent of Hebei's emigrant population, with Tianjin second, accounting for 15.93 percent; then in descending order came Shanxi for 7.65 percent, Inner Mongolia for 6.13 percent, Shandong for 4.62 percent, Henan for 4.35 percent, and Liaoning for 3.17 percent; then came Shanghai, Sichuan, Shaanxi, Heilongjiang, Jiangsu, Guangdong, Anhui, and Hubei, all accounting for 10,000-20,000 emigrants; all other provinces and regions accounted for less than 10,000; the lowest was Hainan, with only 570 emigrating to Hebei, and only 1,180 to Guizhou. This shows generally that:

Hebei's emigrant population was concentrated mostly in the two cities of Beijing and Tianjin, which together accounted for nearly 50 percent of Hebei's emigrant population; second came other peripheral provinces, making up nearly 26 percent.

Provinces and cities far from Hebei but economically developed also accounted for more of Hebei's emigrant population.

Hebei's emigrants to interior and economically backward regions were least.

B. As to sex composition, Hebei's emigrants to all provinces were mostly male. For instance, males accounted for 68.35 percent of Hebei emigrants to Beijing, 50.5 percent to Tianjin, 65.74 percent to Shanxi, 63.6 percent to Inner Mongolia, 60.87 percent to Shandong, 64.71 percent to Henan, and 64.19 percent to Liaoning; of Hebei emigrants to economically developed regions, such as Shanghai and Guangdong, males made up an even higher percentage.

3. From mid-1985 to mid-1990, Hebei had a net outflow of 240,610 people, of whom 196,450 were male and 44,160 were female, for a male-female ratio of 1: 0.18.

A. As to Hebei's net-inflow population distribution, of Mainland China's 29 provinces, municipalities, and autonomous regions, 11 had a net outflow to Hebei, in descending order being 53,920 from Sichuan, 30,440 from Heilongjiang, 12,600 from Guizhou, 8,500 from Yunnan, 8,470 from Jilin, 6,140 from Xinjiang, 5,080 from Gansu, 4,590 from Shaanxi, 4,100 from Zhejiang, 1,590 from Hunan, and 680 from Fujian. Of these, except for Zhejiang and Fujian that are coastal provinces, all of the rest are located in China's southwest, northwest, and northeast.

Except for these 11 provinces, municipalities, and autonomous regions, Hebei had a net outflow to all others. This included a net emigration to Beijing of 207,040; second to Tianjin of 70,840; then came 5,500 to Liaoning, 5,390 to Shandong, 3,670 to Henan, and 760 to Inner Mongolia, all of which are peripheral provinces and regions to Hebei Province; in addition, Hebei had respective net outflows to Shanghai and Guangdong of 17,640 and 9,510; Hebei's net outflow to other provinces and municipalities was very low. This shows that:

Hebei had a net population outflow to all peripheral provinces and municipalities, focused particularly on Beijing and Tianjin.

Economically developed regions, such as Shanghai and Guangdong, have begun to become the destinations for Hebei's net outflow population.

Hebei had a net inflow from all interior and economically backward regions. In short, the directions of net outflow and net inflow in Hebei are very clear.

B. As to the sexual composition of Hebei's net migrant population, the sexual flow had very prominent regional features: of the net outflow to Hebei from the 11 provinces, except for Fujian, all were mostly female; on the contrary, Hebei's net outflow was all mostly male.

To sum up Hebei's net migration, it can be said that: the border and interior population had a net inflow to Hebei, mostly female, while Hebei's mostly male population had a net outflow to peripheral provinces and municipalities and economically developed regions.

4. As to the net migration by permanent residence registration, as stated above, based on provincial public security bureau data on permanent residence registration

movement from the founding of the PRC [1949] to 1990, while Hebei's population movement has fluctuated sharply, it has been a cumulative net inflow; in the 1980s, this net inflow grew, peaking at 258,700 people, second only to that of the First Five Year Plan; from 1985 through 1990, the net inflow was 322,100, averaging 53,700 a year.

As to population movement in the fourth census, including the two categories of officially transferred permanent residence registration and "temporary residence," while we are temporarily unable to differentiate the two precisely, we can do so roughly based on reason for moving: this is because the five categories of work transfer, assigned employment, resignation or retirement, moving as dependents, and moving for marriage generally all require official transfer of permanent residence registration, while all others do not; on this basis, from mid-1985 to mid-1990, Hebei had a net permanent residence registration inflow of 47,050 people, averaging less than 10,000 a year; while these figures are much lower than public security ones, they still show that Hebei Province is the destination in the eastward movement of China's western population. So the fourth census conclusion that Hebei is a net outflow province was due to the inclusion of the "temporary residence" population that had moved out for more than one year.

II. A Discussion of Several Issues Involved in the Eastward Population Movement

Summing up the above, we can say that in China's population exchange of the 1980s, Hebei on one hand received mostly female population emigration from the west and north, while on the other experiencing a large outflow of its own mostly male population to mainly Beijing and Tianjin. Such population change had many causes and impacts. We are discussing our views on just a few of the issues involved below.

1. The Basic Cause of the "Displacement" in Hebei of the Eastward-Moving Population

The eastward movement of China's western population since the 1980s is generally held to have two basic causes: a) The eastern region already had a higher level of economic and technological development than the western region, with reform and opening having widened this gap. b) In correspondence to the above-mentioned conditions, the western region has a larger surplus rural workforce and less conversion capability, so that commodity economy development has made an eastward population shift inevitable.

Macroeconomically, why has Hebei become merely a temporary "displacement" for the eastward-moving population? This is because while Hebei has rich and diversified natural resources, which are well disposed, giving it resource advantages and quite good development potential, its economic development level is still not high. Until the last few years of the 1980s, Hebei Province's key economic and technological indexes, in contrast to the national and three major regional ones of

eastern, central, and western, such as per capita gross output value, per capita GVIAO [Gross Value of Industrial and Agricultural Output], per capita national income, and per capita consumption, were all about 15 percent below the national average, equal to the central region, but ranking ninth in gross output value among the 12 eastern coastal provinces, municipalities, and autonomous regions. In addition, as to capital construction investment, in contrast to peripheral provinces, municipalities, and autonomous regions where population was moving to more, Hebei was backward in both investment scale and investment growth rate. In all provinces, municipalities, and autonomous regions with which Hebei had a net outflow, capital construction investment was higher than in Hebei; on the contrary, provinces, municipalities, and autonomous regions with lower capital construction investment had net population outflows to Hebei. In light of this, I would make the following two points:

1. Population movement and flow is due generally to imbalanced overall regional potential, causing population flow from lower-potential regions to higher-potential ones. Where economic and technological development levels are lower, regions with better dispositions of resources, higher resource potentials, and stronger resource potential attract population immigration, with Hebei being in this category. This is the major reason why, with a still low level of economic development, Hebei is both a "spigot" and a "receptor" in population movement.

2. Capital construction investment has played a key role in population movement and mobility ever since the founding of the PRC. The northward and westward movement of China's population center after the founding of the PRC was consistent with our national capital construction investment priorities, just as today's eastward shift of population center is consistent with our current national capital construction investment orientation. So the facts prove that national capital construction investment orientation remains the key driving force in China's population movement and mobility.

2. The Final-Assembly "Destination" of the Eastward-Moving Population

A conspicuous feature of Hebei's population movement is a net inflow on one hand, along with a net outflow on the other. Such population-movement change, in addition to the resource-environment factor, also involves an inevitable outward-mobility capability. The historical population-movement trend and the fourth census show that Beijing and Tianjin have always been the priority destinations of Hebei's outflow population. In a certain sense, if Hebei's resource advantages were not mutually complementary with Beijing and Tianjin's economic and cultural advantages, to form a comprehensive regional advantage, it would seem hard to imagine that Hebei could absorb such a large number of western population immigrants. But the west to east population-movement change has formed a process of western to Hebei to

Beijing and Tianjin, with Hebei as in intermediate "displacement," and the final destination being Beijing and Tianjin. So from a macro perspective, the final-assembly destination of the eastward movement of the western population is Beijing and Tianjin. This view is supported by the following figures: a) In the four-plus decades since the founding of the PRC, Hebei has had a net immigration of about 2 million. But projected from a typical survey of our population movement, about 1 million have moved from Hebei to Beijing and Tianjin during the same period. b) The fourth census shows that from mid-1985 to mid-1990, Hebei had a net inflow of over 190,000, along with a net outflow to Beijing and Tianjin of more than 270,000. So it could be said that Hebei has guided over 80,000 western immigrants to Beijing and Tianjin.

In light of this, how can the populations of large cities, such as Beijing and Tianjin, not be uncontrollable? This is essentially a matter of not paying enough attention to controlling urban functions, as sound functions inevitably increase population. As to the laws of urban evolution, the lack of decentralized urban functions makes it hard to control population size. In addition, population control of large cities, such as Beijing and Tianjin, requires overall planning with the whole nation, particularly neighboring regions, as well as coordination measures, without which it would be hard for it to be effective. Furthermore, in light of China's large population and its uneven distribution, unless effective steps are taken to strictly control our urban population, the population-expansion consequences will be even more severe than otherwise. There are two figures here that are much deserving of mention: a) Sample surveys show that in the first 35 years after the founding of the PRC, about one-third of the net immigrant population to Beijing was from Hebei. b) The fourth census showed that from mid-1985 to mid-1990, about one-third of the net inflow to Beijing of approximately 600,000 was from Hebei. If this reflects a certain pattern, in which Hebei receives an unending stream of western population and Beijing and Tianjin a similar population inflow from Hebei, then it will be hard to prevent the expansion of the populations of Beijing and Tianjin.

While these superficial views are likely somewhat biased, it is hoped that they will arouse attention and thorough study.

AGRICULTURE

Rural Land Reform in Nanhai

94CE0471A Beijing JINGJI RIBAO in Chinese
6 Apr 94 p 4

[Article by Wang Zhuo (3769 3820), the "Saisi" Institute for Economic and Social Development, Guangdong: "How To Resolve the Contradiction Between Rural Modernization and the System of Household Land Contracting—Nanhai County in Guangdong Province Establishes New System of Rural Land Proprietary Rights"]

[Text] New Contradiction Attracts Much Attention

On their intensified efforts at reform and opening to the outside world, some coastal regions of China are facing the following new situation in their pursuit of agricultural modernization: While they aim at the "four transformations" in agriculture—agricultural modernization, agricultural industrialization, urbanization of villages, integration of town and countryside—demand has arisen to effect an overall rearrangement, a more rational utilization, and unified planning with regard to all land. This, as a consequence, is conflicting with the output-related responsibility system. In a reform experiment in Nanhai County, Guangdong Province, it had become quite clear that a rational resolution of this new contradiction is only possible with a reform and remolding of the system of proprietary rights to land in the rural areas, comprising a shift from the land subcontracting system to a system of "investment responsibility" [tou bao]. In the new system of proprietary land rights at Nanhai's reform experiment the property right of land was split into land ownership and corporate proprietary right to land, and the ownership right would then be returned to the peasants, while the corporate proprietary land right would be held by an economic organization in a cooperative land-shareholding system, thus forming a double-tier structure of the proprietary rights to land, where the ownership of land is dispersed and is integrated with a socially more acceptable distribution of the land resource. This is not privatization of land, but a process of discarding the useless and maintaining the useful in the system of proprietary land rights of the traditional collective economy, with its too high a degree of public ownership. It is a newly structured system of land proprietary rights of the rural cooperative economy on a shareholding basis, marked by land being brought in as shares.

A Cooperative Land-Shareholding System

The reform and remolding of the proprietary rights in the rural areas thus consist in establishing a cooperative land-shareholding system. In concrete terms, it is the conversion of land into shares, the resulting entity then being quantified per person according to their ages and according to the quality of the land. In planning the conversion of land to shares, reference may be made to the land tax evaluation or to the pricing of land according to its operational returns. This cooperative land-shareholding system separates the value substance of land ownership from the use value substance of the corporate proprietary right of the enterprise. This kind of a separation can resolve the contradiction between the future reversion of land ownership to the peasants and the intended overall land arrangements, the more rational utilization of land, and unified planning with regard to land. It will accurately resolve the contradiction between the modernization of the rural areas—the division of all land, with administrative districts as units, into basic agricultural land preservation districts, industrial development districts, and commercial and residential districts—and the system of proprietary

rights to land. At the same time, the system of dispersed land responsibilities will be transformed in a well-ordered manner into an "investment responsibility" system. Implementing the cooperative land-shareholding system is a second reform of breakthrough dimensions in the rural areas, as it replaces the proprietary system of land holdings in the traditional collective economy and follows on the output-related household responsibility system. The difference between the present reform breakthrough and the first breakthrough is that the first reform breakthrough only went as far as the output-related household responsibility system. Indicative of it was that its precondition was the preservation of the original proprietary system of land holdings in the traditional collective economy, as the proprietary right to land was divided into ownership and use right, and the land was then distributed by the land owner, the former collective-economy organization, equally according to the head-count of contracting peasants, while no fundamental reform was effected in the proprietary system of land holdings of the collective economy. Indicative of the present reform breakthrough in the rural areas, however, is the creation of a new proprietary system of land holdings, while preserving the useful and discarding the useless in the proprietary system of land holdings of the traditional collective economy. With the cooperative land-shareholding system as breakthrough point, the cooperative shareholding system is being promoted all over the rural area. An assessment is being made of the entire assets of the primary, secondary, and tertiary industries in the former collective economy, and total value of assets will be converted into shares, the shares then allocated to persons, and share certificates will be issued. It will be stipulated at the same time that no withdrawal of shares will be permitted, a fact that will help maintain stability in the operation of assets in the cooperative shareholding economy. Distribution of income in the cooperative shareholding economy shall be preceded by payment of taxes and deductions for public welfare funds and public accumulation funds, whereupon dividends shall be paid according to the number of shares held. This is a socialist cooperative land-shareholding system with Chinese characteristics.

Step By Step Implementation

The reform experiment at Nanhai has made it clear that the shift from the output-related household responsibility system to the land-holding target model of the cooperative land-shareholding system must be accomplished in two steps: The first step shall accomplish the transitional model of the proprietary land right, while the second step shall achieve the target model of proprietary land right.

It means that during the first step of Nanhai's cooperative land-shareholding system, there has to be set up first a transitional model of proprietary land right by "unremunerated allocation of shares, and by actual dividends paid on nominal shares." The term "nominal shares" is to signify that these "land-shares" cannot be passed on as inheritance, cannot be transferred or pawned. The term

"actual dividends" comprises two meanings: one is that dividends are paid according to number of shares, and the other is that when aggregate dividends reach the value of the land-shares (in some places set at 14,000 yuan per mu, in other places at 20,000 yuan), the stockholders' rights automatically end, but not so the right to dividends, which are then joined to the basic share and continue. The unremunerated allocation of shares is conducted according to the ages of the peasants and according to the quality of the land. I inspected an economic cooperative operating on shareholding basis at Xianan, Pingzhou township, and saw that their statute prescribed: 1 share for every person below 16 years of age, 2 shares for persons between 17 and 35, and 3 shares for every person of 35 and over. They had completely broken away from the proportions of land held under the former responsibility system, so there was no problem about contracted land use rights affecting the share holdings. As to communes holding different amounts of land, conversion of the value into shares was done according to the actual holdings of each commune, so there was no more any problem of egalitarianism and indiscriminate transfer of resources of the "communal production" mode.

The second step in implementing the cooperative land-shareholding system at Nanhai would then be the target model for proprietary land rights, namely "remunerated taking-up of shares and actual dividends paid on actual shares." The so-called "remunerated taking-up of shares" is the counterpart to the "unremunerated allocation of shares." The land use rights contracted for by the peasants was then actually already bought back by the enterprise entity of the cooperative economy, using the accumulated dividends. It was for this reason proclaimed that the shareholders' rights from the unremunerated allocation of shares had ended, and that the peasants thereafter were again allowed to buy back land ownership by way of remunerated taking-up of shares, making the peasants' land ownership their share contribution; this, then, is the "remunerated taking-up of shares." This procession from unremunerated allocation to payments of dividends according to number of shares, and again to remunerated taking-up of shares, amounts in actual fact to giving back the land ownership to the peasants without remuneration. This, then, is the essence of Nanhai's experiences with the cooperative land-shareholding system. Nanhai implemented the system in two steps. First, it gave the peasants land dividends to strengthen the peasants economically, enabling them to take up remunerated shares, and this remunerated taking-up of shares will also convey to the peasants the idea of truly possessing ownership of the land. The "actual shares" part in the mentioned "actual dividends paid on actual shares" is the counterpart to the "nominal shares" in the mentioned "actual dividends on nominal shares." While it was not permitted to transfer, pawn or inherit "nominal shares," the present "actual shares" can be transferred, pawned, or inherited, but withdrawal of shares is not permitted. However, two things must be

watched out for when allowing the peasants "remunerated taking-up of shares," namely, one, in consideration of the particular character of the socialist cooperative economy, provisions must be made as to the proper qualification of persons taking up land shares, and, two, considering the fact that land is a means of production without reproductive ability, and considering also the particular character of the socialist cooperative economy, it must not be permitted that a small group of people become prominent by controlling large amounts of land shares; a ceiling must therefore be prescribed for the amount of remunerated shares that peasants may take up.

Will It Lead to Privatization of Land?

Nanhai's new rural land-holding system is a two-tiered structure of proprietary rights to land. At one level the land ownership is given to the peasants, and the peasants are owners of the land. At the other level, the peasants use the land as share contributions and thereby create the corporate proprietary rights of the cooperative enterprise operating on the shareholding system. The system of which they adopt useful elements and discard useless elements is the land-holding system of the traditional collective economy. The system that they newly create is the land-holding system of the cooperative economy. The objective is to use the land-holding system of the cooperative economy to replace the land-holding system of the traditional collective economy with its too large a degree of public ownership. There is essentially no question here of changing the collectivization of land into a privatization of land.

Looking at the target model of the rural land-holding system, we see that the next step in promoting a well-standardized cooperative land-shareholding system has, as its precondition, acknowledgment of land ownership by the peasants. Without this precondition, there can also not be any cooperative land-shareholding system. Whether we honestly acknowledge land ownership by the peasants or do so only hypocritically will determine whether the land property ownership of the peasants will indeed be respected and protected.

Zhejiang Rural Saving Deposits Increase

94CE0397V Hangzhou ZHEJIANG RIBAO in Chinese
11 Apr 94 p 1

[Summary] At the end of March, rural saving deposits in Zhejiang Province exceeded 38 billion yuan, an increase of 5.8 billion yuan over the beginning of the year. By the end of March, agricultural banks and credit cooperatives in Zhejiang allocated 4.834 billion yuan in loans for spring planting, an 11.5 percent increase over the same period in 1993.

Hunan Grain, Cotton Area

94CE0397X Beijing NONGMIN RIBAO in Chinese
27 Apr 94 p 1

[Summary] At present the grain and cotton area in Hunan Province exceeds 30 million mu.

Provinces To Increase Cotton Area

94CE0397W Beijing NONGMIN RIBAO in Chinese
16 Apr 94 p 1

[Summary] In 1994 the planned cotton area in Jiangxi Province is 2.6 million mu, an increase of nearly 700,000 mu over 1993. In Hubei the planned area is 7.5 million mu, an increase of 200,000 mu. In Hebei the planned area is 8,450,000 mu, a 10 percent increase. In Liaoning the planned area is 800,000 mu, an increase of 390,000 mu. Henan Province will increase the cotton area from 14.6 million mu in 1993 to 15.2 million mu.

Survey of Ningxia Farmers

94CE0419A Yinchuan NINGXIA RIBAO in Chinese
6 Mar 94 p 2

[Article by the Autonomous Region Party Committee's Policy Research Office: "What Are the Peasants Thinking? A Survey of Peasant Households in the Region"]

[Text] Recently, 275 cadres of Hedi county in the Autonomous Region fanned out into the rural areas to conduct a large-scale peasant households survey; they came to understand peasants desires and demands through direct investigation into the basic conditions in rural areas and face-to-face contacts and exchanges with both the rural grass-roots cadres and peasants themselves.

I. Reactions of Peasants

A. The survey shows that 95.4 percent of the households considered the situation in rural area to be generally good, but 60.5 percent were ambivalent; while pleased that conditions are generally good, the peasants were worried that there are still numerous problems of concern to them. The situation is generally good, they felt, because the policy on contract responsibility remains effective, that this good policy was not altered but has continued to be refined since coming into effect; that under market guidance, rural production and the rural economy are on track to stable development and the trend shows that grain production and income are on the increase; and that rural livelihood has improved markedly and the peasants are fully confident that they will become well-off.

With respect to problems in rural areas which have remained unsolved, however, the peasants expressed a great deal of concerns. 1) A majority of the households felt that agriculture is still in an unfavorable environment today, and some peasants compared the situation

to two persistent sicknesses of "malaria" and "edema," [waxing and waning in enthusiasm for agriculture on one hand and an excessively bloated condition on the other] for although agriculture has long been considered to occupy an important position [in the economy], it is basically still weak. If the two "sicknesses" were not cured, it would be difficult for rural areas and the rural economy to advance to the next stage. 2) 87.4 percent were very much worried that policy measures designed to protect them and agriculture will continue, particularly measures to increase government input in agriculture, reduce the social burdens on peasants, control the unhealthy tendencies, and permit and encourage peasants to seek employment in secondary and tertiary industries in the cities. 3) The peasants surveyed anxiously looked forward to seeing their agricultural production and enterprises get in the market channels as soon as possible and having their income increased, but the gap between their need and the actual situation remains considerable. The survey demonstrates that irrational structure in rural enterprises is the greatest inhibiting factor. In 1992, among model village households, the ratios of income derived from grain, forestry, animal husbandry, sideline products and fishery were 73:3:17:2:5; the ratios of income from growing grain versus cash and other crops were 79:13:8, and nonfarm income was 40 percent of total income. In 24.3 percent of model village households, the per capita income was as low as 300 yuan. 4) The pressure of agricultural surplus labor in rural areas is increasingly severe. The annual labor transfer rate in model village households is only 0.8 percent, and one-third of the labor force is idle reflecting a trend of declining labor productivity; in over 70 percent of the households, real income is showing slow growth or negative growth.

B. On rural reforms and rural policies, the survey shows that the peasants placed their greatest hope in both these areas, and their major demand is that reforms should be pursued even more rigorously to achieve breakthroughs proceeding on a foundation of basic policy stability. 1) 77.3 percent of the households felt that the joint household contract responsibility system should remain unchanged over the long term; 48.5 percent felt that changes would not be necessary in contract land and that the system can operate satisfactorily by voluntary transfer [of contract land]. 2) 54.2 percent considered that application of reforms and other policy measures should differentiate among households and not treat all of them equally, for income discrepancy is normal and some people should be permitted to become well-off first; but 28.9 percent felt that from the start attention should be paid to preventing the gap between rich and poor from growing too wide, and achieving common prosperity through coordinated reform policy measures. 3) All 100 percent of the households felt that rural reforms and policies should focus on the crucial issues of assisting peasants achieve breakthroughs in a market economy within a broad framework, particularly in breaking down the duality which divides urban and rural areas, and adjusting the enterprise structure and social

services system. 4) 49.3 percent felt that further efforts should be made to perfect policy and reform measures and to coordinate with other plans as important as those for a market economy.

In the survey, the peasants revealed four difficult issues in rural reform that must be addressed and resolved: First, the discrepancy between urban and rural reforms whereby many measures which benefit rural economic development and increase rural income cannot be implemented because of incompatibility with urban reforms. Second, with policies being formulated in different quarters, forceful coordination and supervision of policy implementation are lacking, and peasants themselves could hardly resolve policies which are contradictory; some good policies lack firmness and corollary measures to ensure their implementation; at present, insufficiently firm policies are a particularly notable problem. Third, the lack of clear-sighted policies which affect the crucial question of economic development today. Policies which peasants have anxiously awaited are still pending, creating numerous difficulties which peasants cannot solve in a timely way under condition of a market economy. Fourth, propaganda and education for peasants on reform policies are inadequate. Channels for peasants to learn about and understand these policies are limited, and feedback on peasants needs is not timely which affects the enthusiasm of peasants to participate in implementing the policies.

C. Views toward the rural areas and economy. On evaluating the enthusiasm for production, especially grain production, views of the peasants varied considerably. The survey indicates that 59.3 percent of the households considered there is a future if agriculture is handled well; 63.4 percent felt that to ensure adequate grain production, continued efforts are required; 60.2 percent felt that with grain prices freed, and if grain can be sold under such conditions, they would be willing to increase input in agricultural production; and more than 90 percent felt that even if a large part of the labor force were diverted to various nonfarm pursuits and enterprises, contract land should not be abandoned.

The peasants surveyed also gave their reactions to the various factors which affect grain production enthusiasm under the present system. 1) 40.7 percent felt that if the relative benefits of agriculture were to continue to decline and the grain market remained in its slump, they would consider abandoning farming; 2) 56.4 percent felt that when more grain is grown than can be sold, "prices obviously would drop given the glut in supplies." Some considered that given the current situation of grain in surplus and money in short supply, it is more important to hang on to cash and wait to see if protective policy measures would have any effect in reviving prices; 3) 16.2 percent felt that the current shortage of capital has resulted in insufficient agricultural input, and fragmentation of land use has affected raising of agricultural productivity.

On the various avenues for developing the rural economy, views of the rural cadres and peasants are: 1) Developing the rural economy should begin by developing various forms of enterprises. Household enterprises should be preserved and their enterprise structure adjusted according to market demands. 2) It is necessary to take advantage of any opportunity to adjust the enterprise structure, particularly by allowing different forms of ownership to freely evolve in rural enterprises. In 1992, the income peasants households derived from rural enterprises was only 18.8 percent of their total income, lower than the national average but with considerable growth potential. 3) The collective economy should be firmly supported. In 1992 the villages surveyed had fixed assets valued at 35,318,500 yuan, averaging 318,100 yuan per village, which constituted an important productive force in the rural areas. To develop the collective economy at the village level, it is necessary to perfect a dual-level operating system by vigorously developing basic infrastructure enterprises, rural enterprises and strengthened services for rural areas.

D. Views on development of the rural society. The survey shows the peasants to be eager for more rapid social development in the rural areas: 1) 85.7 percent felt that the pace of social development in rural areas should be stepped up; 90.5 percent would be willing to contribute some capital or labor toward building up and improving the rural areas and markets. 2) 82.6 percent felt that small cities, townships and market towns should be built up. 3) 27.8 percent indicated they would consider settling in such small cities, townships and market towns.

In social development, which aspects should be emphasized in the near term? The peasants generally felt that building infrastructure facilities is important. 1) 51.6 percent felt that priority should be given to building up townships and villages to meet requirements of a developing market economy; 25.1 percent felt that social development should benefit village residents and improve village appearance; 22.4 percent felt that the focus should be on unifying water supply system to solve problems of potable and clean water. 2) 41.9 percent expressed concern over their feeling of insecurity due to the poor public security in certain parts of the region where such cases are increasing in number; they therefore felt that safety and security of peasant households should be given priority in any social development. 3) 92.4 percent advocated vigorous promotion and building of spiritual culture. All the households without exception wanted the authorities to grasp the problems with both hands and resolutely carry out the basic tasks of improving the peasant society.

On promoting a spiritual culture, views of the peasants are: 1) Propaganda on law and order is inadequate, building of a legal system has been lagging, and understanding of the concept of a legal system is weak. On law and order propaganda, 50.3 percent said it has been sporadic; 18.9 percent said there has been no such

propaganda. 2) The building of a spiritual culture is considered a soft task and this is reflected in work the government carries out in rural areas. 3) Many aspects of building a spiritual culture are divorced from the reality of peasants life, and activities which emphasize only form without firm substantive objectives have produced [unfavorable] side effects among the peasants. 4) Building a spiritual culture will naturally take a period of time and must take into account both [agricultural] production and the reality of peasants life. More than one-half of the households surveyed suggested that henceforth government work teams should be trained before they are sent to rural areas to carry out model propaganda education on a regular basis.

E. Views toward grass-roots level development. According to estimates by agricultural cadres, 82 percent of the households considered the behavior of grass-roots level cadres to be good or basically good; 85.6 percent felt that the cadre-peasant relationship is harmonious. The peasants also felt, however, that there are too many such cadres, that "many dragons are not necessarily needed to fight drought." In model villages, there is an average of 5.8 cadres per village. The peasants felt that the basis of their assignment should be sending small numbers of well-trained cadres, numbers which peasants can afford to support and which will also fully demonstrate the cadre enthusiasm and potentials.

Improving the grass-roots level cadres means first improving the party rank and file, that is the relatively uniform view of the peasants surveyed. The survey shows that 38.5 percent of the households felt that a majority of party rank and file are effective, but 18.9 percent do not have a very good basic impression of them in the rural areas.

II. Hopes, Opinions and Demands of Peasants

The peasants surveyed expressed some of their hopes, opinions and demands which may be summed up in terms of the following:

1. The peasants hoped that leaders at every level will visit rural areas, and come to their villages and households for face-to-face conversations and draw out what is in their hearts. At present, the real situation in rural areas becomes diluted as it is reported upward level by level, and there is discrepancy between propaganda and reality, e.g. over the extent to which peasants are supposed to be well-off today.

2. They hoped that central and local governments will be resolute in applying real efforts to carry work in rural areas; if agriculture is considered the foundation of the national economy, then work in this area should be given that degree of emphasis; with agriculture the topic of meetings, slogans and government documents, the peasants anxiously hoped that this emphasis will lead quickly to many good policies which will benefit them when implemented.

3. The party holds peasants in high regard and gives them an important political status, the peasants surveyed were most grateful and pleased. But despite the high political status, peasants felt that if they were not able to catch up economically, their social status will not be any higher. Today the urban-rural gap is getting wider, and the peasants though anxious cannot do anything about this; they therefore hoped that their leaders will truly open up the gates to the cities, tear down the "bamboo wattled wall," give more thoughts to how to increase peasants income, narrow the [rural and urban] discrepancy in incomes, and draw closer together the hearts and minds of both rural and urban residents.

4. Stabilizing and perfecting basic policies for rural areas please all the peasants surveyed. While at this time it is correct to emphasize stabilization of the joint household responsibility system, it is not enough, for many other policies should also be stabilized. For example, some peasants were afraid that the policy allowing them to develop individual enterprises may change and therefore held back from trying.

5. They hoped that as in the 1950s and 1960s, the authorities will integrate and blend together support coming from all quarters for the rural areas, and assist peasants to develop the economy and increase their income. In such a context, any action which hurts, cheats, discriminates, oppresses or tries to shallow up the peasants will immediately evoke a reaction such as that of people crying out to kill a rat seen running across the street.

6. Rural education is a major task of concern to several generations of peasants, and education should be the first task in developing the rural areas. Today, the transition in agriculture is difficult for peasants to manage, but many do so in the interest of their next generations. To help the rural economy become prosperous, the peasants hoped the government will do its best in the task of education.

7. To improve public security in society, it is necessary to begin in rural areas; if it is not done well there, and rural areas are insecure, then this will affect the cities. A coordinated approach to improving public security requires that attention be given to both urban and rural areas.

8. In dealing with corruption, major cases must not be allowed to drag on, and issues of administrative corruption must first be dealt with. At present, action to redress unhealthy tendencies in the enterprises has not been adequate, and the peasants hoped that more effort will be made. The best approach would be to focus on the worst model and openly attack it within a broad framework.

9. More efforts should be made to train leadership cadres for rural areas. Selected for training should be persons of ability who think for themselves, who work with their hands and who rely on their labor and talent to produce wealth.

III. Issues That Require Effective Implementation

Judging by the situation revealed in this large-scale households survey, and considering the coming period of intensified rural reforms and accelerated development of the rural economy, the following issues will require major implementation efforts from a macro standpoint:

1. Strengthen and nurture the basic rural enterprise units by stabilizing the overall situation in rural areas. Survey results demonstrate that in the Autonomous Region, the work in stabilizing and perfecting the household contract responsibility system in the context of a dual-level enterprise system has been effective and should continue. In perfecting both systems, reforms and policies should aim at solving new contradictions that emerge, particularly on the key issue that in rural economic development, rural households be made the basic enterprise units which need to accommodate demands of a developing market-based economy. To raise the level of household enterprises, we need to promote rural market development. At the same time, our policy should create advantageous conditions for building and perfecting socialized services for the rural areas.

2. Vigorously develop high-quality and high-efficiency agriculture and raise the benefit ratio of agriculture. To achieve this type of agriculture, it is necessary to put economic efficiency and market demands first as we change from concentrating on quantitative increase in production to emphasizing raising qualitative benefits. We should aim for major breakthroughs in reforms by vigorously adjusting the rural enterprise structure, establishing conditions favorable to market development of pillar enterprises within the Autonomous Region, accelerating development of enterprises with good benefits ratios, vigorously developing new enterprises, and promoting the unification of production and sales. We should aim to combine breakthroughs in key areas with growth in all areas, to establish agricultural model demonstration areas, and to intensify development of improved product variety, grade and quality.

3. Through breakthrough reform of the households registration system, accelerate unification of rural and urban areas. An important aspect of the deepening rural reforms is to break down the dual economic setup and system. We should first remove restrictions on rural households then encourage the peasants to take jobs in secondary and tertiary industries in cities, townships and

market towns and, through the momentum and indirect effects of this trend, promote social development in rural areas and unification of rural and urban areas.

4. To put agriculture and the rural economy within the overall national economic strategy, support further multifaceted development. We should effectively implement the "agricultural law," guarantee that financial input in agriculture will increase by fixed percentages on a yearly basis, widen the scope of credit support for agricultural development and adjust the rural enterprise structure. We should support internal liquidity of agricultural cooperative funds. We should develop new approaches and measures to provide overall social support to agriculture and activities in rural areas, and develop various kinds of alliances and cooperations.

5. Based on demands created by the changing economic system, strengthen the building of a spiritual culture. To do so requires that we strengthen efforts to deal with the basic tasks, change our approach from focussing on form to concentrating on substance, and take into account peasants thinking and rural reality in developing effective activities. In the current period and foreseeable future, we need to administer the rural areas according to regulations and allow democratic management to come to the fore.

6. Earnestly strengthen the leadership for work in rural areas. First, we should quickly establish a consolidated leadership structure for work in rural areas under the direct supervision of the party and government, strengthen organization and coordination of any work with peasants, and carry out effective analysis and supervision of policy measures and macro-level guidance. Second, based on demands of the Central Government, built basic-level organizations in rural areas in stages within a three to five year period. We should concentrate on improving the party organization before any basic-level organizations in rural areas, educating party members before rural cadres, raising the quality of party rank and file before the peasants, and finally developing and shaping teams of party cadres who possess firm and forceful leadership and can take the lead [to energize the masses]. Third, change and improve on methods to evaluate performance of leadership by using peasants real income increase as criterion to judge effectiveness of the cadre teams and of the support given by leadership and government departments at every level for developing the rural economy and increasing peasants income.

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